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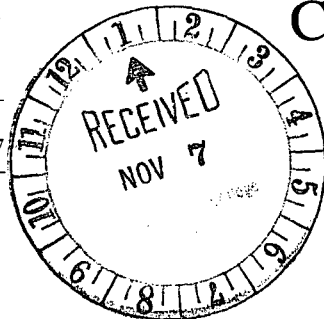
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Current History

NOVEMBER, 1983

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In this issue, eight specialists discuss Japan's political and economic trends. Our lead article points out that "The United States and Japan have moved even closer to a working military alliance since 1981."

Japan and the U.S.—The Security Agenda

BY DAVID B.H. DENOON

Associate Professor of Politics and Economics, New York University

ALTHOUGH there has been no single, dramatic turning point, there has been a major change in United States–Japanese interaction in the past five years. In 1978, President Jimmy Carter's Far East policy focused on the normalization of relations with the People's Republic of China (PRC) and disengagement from Taiwan. Despite efforts by Secretary of State Cyrus Vance to develop a smooth working atmosphere with the Soviet Union, Carter administration talks with Moscow were never relaxed; this gave United States National Security Adviser Zbigniew Brzezinski room to pursue an entente with China. Few observers anticipated that President Carter would recognize China as soon as he did (January 1, 1979), but it was clear that the last two Carter years were spent courting China as a counterweight to the Soviet military buildup in the Far East. The Carter administration's discussions with Japan mainly focused on trade questions and neither side showed any particular desire for a change.

By 1983, the situation was fundamentally different. The rapid deployment of Soviet Backfire bombers and SS-20 intermediate-range nuclear missiles made a deep impression on the Japanese public; and this proximate threat combined with the second oil shock of 1979–1980 and the Soviet invasion of Afghanistan heightened Japan's sense of vulnerability. The September 1, 1983, attack by a Soviet fighter on a South Korean civilian airliner that had strayed into Soviet airspace caused further fears in Japan, and reduced prospects for improved Soviet–Japanese relations.* All this has led Japanese political leaders to concentrate increasing attention on security policy.

The 1978–1983 period has also produced some

fundamental changes in United States perceptions. National Security Adviser Brzezinski's talk of "playing the China card" was basically an extension, albeit a crude one, of Secretary of State Henry Kissinger's view that the global power balance was a triangular structure: the United States and the U.S.S.R. were the main protagonists, with China as the swing factor. While he was National Security Adviser and subsequently Secretary of State, Kissinger saw the relative power of the United States declining. He thought it was critical to keep China from realigning with the Soviet Union and to keep the Soviet Union uncertain about Chinese intentions. If they agreed to cooperate with the United States, the Chinese capability would require a Soviet commitment of men and equipment in the Far East.

Kissinger's conception dominated the presidencies of both Richard Nixon and Gerald Ford and certainly played a key part in the design and implementation of détente. Nevertheless, by 1980 the triangular construct was dated. Close United States and Chinese relations may have played a part in facilitating SALT I (Strategic Arms Limitation Treaty) negotiations, but they failed to inhibit the Soviet Union in its support of Libya, Angola, Ethiopia, Southern Yemen, Cuba and Nicaragua; and both the United States and China had been blithely ignored as Soviet troops invaded and occupied Afghanistan. Despite his campaign promises to cut the defense budget by 5 percent, President Carter dramatically expanded United States military commitments in January, 1980. He explicitly stated that the Persian Gulf was an area of vital interest to the United States (the Carter Doctrine) and proposed a sizable real increase in defense spending for fiscal 1981. This focus on the Middle East and a military intervention capability need not necessarily have led to a reassessment of United States–Chinese relations. Yet it put an immediate strain on United States–Japanese

*The airline disaster also revealed that there is now close Japanese–American intelligence cooperation.

ties because Seventh Fleet aircraft carriers were shifted from the Pacific to the Indian Ocean.

As the Carter presidency drew to a close, many Japanese wondered whether the United States could and would honor its commitments to defend Japan. Since the United States–Japanese Mutual Security Treaty is the cornerstone of Japanese defense arrangements, the governing Liberal Democratic Party (LDP) is judged by how well it maintains American protection. Therefore, it was the curious combination of perceived American weakness and the election of a President committed to a rapid modernization and expansion of United States military strength that laid the basis for a transformation of the United States–Japanese security relationship. The leadership of the LDP recognized that the Soviet military threat was tangible and that Japan would have to take on an expanded military role to maintain at least the semblance of adequate “burden sharing” with the United States.

A comparable reevaluation was taking place in Washington. The Reagan administration's initial move to enhance its position in northeast Asia was Secretary of State Alexander Haig's offer of weapons to the Chinese. Yet by 1982, once George Shultz replaced Haig, United States attention increasingly turned to Japan. Not only was it galling to Americans to see how little the Japanese were actually spending on defense, but there was growing recognition that China's modernization was proceeding at a very slow pace and that the Japanese represented a more promising ally. Although the Reagan administration consistently urged Japan to expand defense expenditures, it was only after the rise of Prime Minister Yasuhiro Nakasone and the more cautious judgment of China's likely performance that the United States began to value its links to Tokyo more than those to Beijing.

President Ronald Reagan's November, 1983, Asian tour will focus attention in the United States and in Japan on these sensitive topics, and the extent of its success could well shape the character of United States–Japanese relations for the rest of the decade.

The most immediate concern of both Prime Minister Nakasone and President Reagan is to ensure that the trip reinforces rather than strains their relationship. Given its problems in the Middle East and Central America, the United States would like evidence of calm stability in its Pacific dealings. From his own personal perspective and that of the LDP, Nakasone needs visible signs that drawing closer to the United States will not mean being smothered.

TRADE ISSUES

Economic competition has been the main source of

tension between Japan and the United States in the last 15 years. President Nixon ran for office in 1968 pledging to reduce unfair Japanese textile imports; debates about the legitimacy of Japanese industrial policy and trading practices have been a staple ever since. The Japanese feel unfairly criticized and note that the United States has set up a broad array of trade barriers: the Multi-Fiber Arrangement for textiles, the trigger price system for steel, and various voluntary quotas for shoes, color televisions and autos.

Saburo Okita, Japan's most prominent economist, argues that much of the problem is due to slow growth and recession in the United States economy since 1979. Though acknowledging that the United States had a bilateral merchandise trade deficit of about \$20 billion in 1982 with Japan, he asserts that bilateral balances are not the critical indicator because the United States has a \$35-billion deficit with the OPEC (Organization of Petroleum Exporting Countries) countries and a \$10-billion surplus with the European Community and finds this situation acceptable. Okita even claims that the two-way merchandise trade pattern has been relatively consistent.¹

Though Okita's logic may be consistent, his policy prescription—continued large Japanese trade surpluses with the United States—is not acceptable to a broad spectrum of the American public. Many American businessmen who deal with Japan are convinced that they face predatory practices: government subsidies for favored industries, the mixing of trade and aid in export credits, numerous Non-Tariff Barriers (NTB's) like arcane product safety rules, lengthy customs inspections, and maintenance of a marketing system that is often impenetrable for importers. There are also a myriad of hurdles for any foreigner wishing to make a direct investment either by building a new plant or purchasing a Japanese firm. In addition, though there have been frequent promises that Japanese government procurement would be open to foreign bidders, the most lucrative single market, Nippon Telephone and Telegraph, has repeatedly rebuffed foreign equipment suppliers.

The most vexing current trade issues concern Japanese limits on citrus and beef imports. United States suppliers see this as an extremely promising market, and the United States has given formal notice that it will invoke General Agreement on Tariffs and Trade (GATT) retaliatory measures unless the Japanese permit substantially greater citrus and beef imports by August, 1984. This is a difficult issue for the LDP because its most steadfast constituency is in the farming community and greater citrus and beef imports will hurt its prime supporters.²

SECURITY ISSUES

Security issues are less a matter for tension than economic topics. The United States is not pressing for

¹Saburo Okita, “U.S.–Japan Economic Disputes: Lowering the Temperature,” *International Security*, fall, 1982.

²For further information on United States–Japanese trade, see Robert Ozaki's article, pp. 357ff in this issue.

change in Japan's "Non-Nuclear Principles."³ Prime Minister Zenko Suzuki committed his government to defending air and sea lanes up to 1,000 miles south and east of Japan, and Nakasone subsequently agreed to a division of labor with the United States that specifically defines defense "roles and missions" for each. Thus the concerns are not principles but detailed negotiation. Although there is a clear inconsistency between the Japanese government's official statement of its defense goals (as published in the National Defense Program Outline in 1976)⁴ and commitments made by its Prime Ministers, the United States has left it to Japan's Cabinet and the LDP to resolve the issues.

The principal debate between Tokyo and Washington on defense matters concerns quantity. In 1983, Japan spent .98 percent of its GDP (gross domestic product) for the Self Defense Forces, while the United States spent approximately 7.0 percent of its GDP.⁵ This vast discrepancy in defense spending is contentious because (1) unless the Japanese increase the percentage of their society's resources going to the military, they will, for the foreseeable future, be dependent upon other nations for their defense, and (2) the low level of Japanese military expenditures frees funds for research and investment while requiring higher taxes and absorbing resources in the nation that provides the defense (currently the United States). It is also clear that Japan cannot even defend the air and sea directly surrounding its home islands without a major increase in anti-aircraft and anti-submarine capability,⁶ and this makes the broader commitments made by Suzuki and Nakasone essentially theoretical statements.

During the past three decades Japan and the United States have tried to handle their economic and defense issues on separate tracks. This was convenient for both countries because the bureaucracies involved were dis-

tinct, and there was little overlap in the areas being negotiated. This separation is no longer feasible. The American public will not indefinitely pay to defend the Japanese public, particularly because many American producers see their industries threatened by Japanese goods. At present, both Yasuhiro Nakasone and Ronald Reagan also have political constituency problems that blend economic and military considerations.

In the United States, the steel, heavy machinery and automobile industries are all concentrated in the snow-belt states that have a large number of electoral college votes. It is precisely these states that are most affected by Japanese imports. Ironically, it is the southern and western states of Georgia, Texas, California and Washington that have the most to gain from exports of military equipment to Japan. President Reagan thus has a very obvious incentive to limit Japanese import competition and stress Japanese Self Defense Force procurement of American systems.

Nakasone has a comparable but different situation. His short-run concerns come from citrus and beef growers whose agricultural districts are overrepresented in the Diet; his more fundamental dilemma is how to move toward a truly viable self-defense capability without antagonizing the moderate and pacifist segments of Japan's population. The post-World War II political system he faces relies heavily on consensus, even though the Diet is overwhelmingly controlled by the LDP. Though the Prime Minister could certainly find a strong coalition supporting a military buildup in the business community, his would be a pyrrhic victory if it alienated a significant part of the population. The United States medicine requires fortitude because it entails both a limitation of exports and a basic shift in Japanese public expenditures. President Reagan sees a kindred spirit in Nakasone, so he may choose the dulcet touch as long as there is demonstrable progress toward agreed ends.

Designing an appropriate Japanese role on the world scene has been a point of controversy ever since the Meiji Revolution in 1868. The original decision to end two centuries of isolation forced a series of choices on such issues as how many foreigners to have in Japan? what technology to import? what military force structure and alliances are prudent? how should access be gained to necessary raw materials and energy for a resource-scarce nation? China's inability to defend itself and its failure to modernize became a negative example,⁷ but the Japanese never did settle on a security policy that was both unobtrusive and independent. There has been a tendency to oscillate between a deep feeling of dependence (*amae*) and the super-nationalistic view of Japan as the exceptional state (*tokushu kokka*).⁸

Since 1945, however, Japanese security has been inextricably linked with United States protection. The Mutual Security and Cooperation Treaty first signed

³In 1967, both Houses of the Diet passed resolutions stating that Japan would not manufacture, possess, or allow the transshipment of nuclear weapons through its territory. These three principles are not part of the Japanese constitution and could be changed at any time that the Diet chose to withdraw the resolutions.

⁴See the discussion of the National Defense Program Outline and the force structure it authorizes in Japan Self Defense Agency, *Defense of Japan 1982* (Tokyo: Japan Times Ltd., 1982).

⁵In comparison the U.S.S.R. spends about 13 percent of its GDP and the Western Europeans spend on average about 2–3 percent of their GDP on defense. For precise figures on a country by country basis, see *Report on Allied Contributions to the Common Defense* (United States Department of Defense, Washington, D.C., March, 1983).

⁶For a review of alliance responsibilities, see Osamu Miyoshi, "Toward a New U.S.–Japan Alliance: The Crucial Choices for the Eighties," *Comparative Strategy*, no. 4, 1981.

⁷Shinkichi Eto, "Evolving Sino-Japanese Relations," *Journal of International Affairs*, vol. 37, no. 1 (1983).

⁸Aketsusu Tsurutani, "Old Habits, New Times," *International Security*, fall, 1982.

in 1952 gave the United States virtually unlimited access to bases in Japan but, conversely, required little commitment from the Japanese to their patron. In the early 1950's Tokyo saw itself as weak economically⁹ and had little difficulty in deciding to concentrate on economic performance. Given United States nuclear superiority, neither the Soviet Union nor China posed a plausible threat. Prime Minister Shigeru Yoshida thus sketched out a basic security strategy that lasted three decades:

A maritime nation, Japan has no choice but to engage in overseas trade if she is to support her ninety million inhabitants. This being the case, her chief partners should be the United States and Great Britain. . . .¹⁰

The principal challenge to the Yoshida strategy of concentrating on economic growth and relying on the United States came from the Left, which favored "unarmed neutralism." This vague formulation did not appeal to a majority of the ever-pragmatic Japanese public. Nevertheless, the Nobusuke Kishi Cabinet in 1957 did bow to pacifist sentiment in its Basic Policy for National Defense, stating that Japan would only gradually build the Self Defense Forces and would depend on the United States treaty and the United Nations as the pillars of its security. The post-World War II peak in leftist political strength came in 1960, when the Socialist party successfully organized massive demonstrations against the signing of the revised United States-Japanese Mutual Security Treaty.

Between 1960 and 1976, there was remarkably little change in Japanese security policy. This was the period of the "economic miracle" and the time when French President Charles de Gaulle called Prime Minister Ikeda merely a "transistor salesman." However, the Nixon Doctrine, the Shanghai Communiqué, the Arab oil embargo, the OPEC oil price increases and the United States withdrawal from Vietnam in 1975 all forced a reassessment. These events made it impossible to ignore Japan's growing vulnerability and led to whisperings that even the United States commitment might be unreliable.

In this setting, the 1976 National Defense Program Outline (NDPO) was released.¹¹ It called for keeping the Ground Self Defense Forces at 180,000 men but upgrading their armor, mobility and surface-to-air

weapons; the total size of the air forces would not grow above 400 planes but would be significantly upgraded through the addition of American F-15's and F-16's. Major changes were proposed for the Marine Self Defense Forces, where operational aircraft would almost double to 220 planes, antisubmarine warfare ships would expand to 60, and submarines would be increased to 16. The Mid-Term Defense Program Estimate in 1981 reaffirmed, with a few modest changes, the 1976 plan for the Japanese military.

The NDPO was important in two regards: (1) it set defense goals that were not entirely limited to home waters and air space, and (2) it committed the government to a specific force structure. The NDPO was mortgaged, though, with an LDP commitment to spend no more than one percent of the GDP on the military. This spending limit could be reversed at any time, but it has become a symbolic barrier even for strong advocates of military spending.

The second significant modification of Japanese defense policy came after additional shocks: the fall of the Shah of Iran, the Irani-Iraqi War, and the Soviet conquest of Afghanistan. These events so near the Persian Gulf (the source of 70 percent of Japan's oil), combined with the buildup of a 10,000-man Soviet garrison in the northern Kurile islands and the deployment of approximately 100 SS-20's and 90 Backfire bombers in the Far East, dramatically changed the military balance in northeast Asia. Japan's key energy source was at risk; and the greater range and improved accuracy of the SS-20's and the Backfires mean that all Japan's major population centers and principal military targets could be simultaneously threatened.

It is widely assumed that current Soviet strategy is to entice China away from its recent links with the United States and to threaten Japan so that the United States Mutual Security Treaty appears to be more a liability than an asset. Prime Minister Suzuki's commitment in Washington in May, 1981, that Japan would defend its southern and eastern lines of communication up to 1,000 miles was critical. It meant that, when the Japanese can really defend the area from the home island to Guam to the northern tip of the Philippines, the United States will be able to concentrate its efforts on the northern Pacific, the Sea of Okhotsk, Vladivostok and Petropavlosk, where the main Soviet power projection capability lies.

With Nakasone's vow to make Japan into an "unsinkable aircraft carrier," his agreement to work out

(Continued on page 393)

⁹Seeing Japan's current position as the world's second largest economy, many observers forget that its per capita income was so low in the 1950's that it qualified as a developing country and was the World Bank's largest borrower until 1960.

¹⁰Shigeru Yoshida as quoted in Michael Kosaka, *100 Million Japanese: The Postwar Experience* (Tokyo: Kodansha Ltd., 1972), p. 106.

¹¹For a full tabular display of the current Japanese order of battle and the changes planned under the NFPO, see *Defense of Japan 1983* (Tokyo: Japan Defense Agency, 1983), pp. 8-14.

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"In the minds of many Americans, the United States government and the American mass media have succeeded in implanting an image of Japan as a highly protectionist nation. . . . Amidst the confusion and heat of controversy the 'truth' gets blurred."

United States–Japanese Economic Relations

BY ROBERT S. OZAKI

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IF a newly arrived economist from Mars were shown a table of the commodity composition of trade between Japan and the United States, he would think that the United States is an "underdeveloped" country, because two-thirds of United States exports to Japan consist of agricultural commodities, crude materials, and mineral fuels, whereas over 90 percent of Japanese exports to the United States are manufactured goods and equipment. The Martian economist would be surprised to discover that the United States is the largest advanced industrial economy on earth, and that Japan, a mere 30 years ago, was a small semideveloped economy. Noting the apparent complementarity of the exchanged goods, he would then find it puzzling that United States–Japanese trade relations have been anything but amicable.

For about a century, from the late nineteenth century until the mid-1960's (excepting the war years), the United States held a persistent trade surplus with Japan. The trend reversal occurred in 1965, and ever since the United States trade balance with Japan has been negative. It was in the mid-1960's, also, that the United States global balance of trade started to register chronic deficits for the first time since the turn of the century.

Viewed in historical perspective, there was nothing surprising about this. In the aftermath of World War II, Japan and West Europe were still struggling to recover from the war-caused devastation of their economies. The United States was the only major industrial nation internally unscarred by the war and richly endowed with vast fertile lands and mineral resources. American firms were the most advanced in the world and uncontestedly efficient in practically all modern industries. The United States could afford to be and was the economic, political and military leader of the free world, the guardian of Pax Americana under which an international economic order was maintained.

In the early 1960's the scene began to change. The United States was still the most productive economy in absolute terms; but in the arena of international economic relations it is the relative, rather than the absolute, level of productivity that matters. The econ-

omies of Japan and the West European countries, having fully recovered from the war, continued to grow faster than the United States. The productivity gaps narrowed, and the relative importance of the United States economy and its exports began to decline.

Japan's accelerated growth, averaging some 10 percent per year from the mid-1950's until the oil crisis of 1974, is now history. What is perhaps more remarkable, its economy recovered quickly from the oil shock despite a total dependence on imported oil, and it managed to overcome the second oil shock of 1979 as well. Its overall economic performance since 1975, judged by the criteria of growth, employment and price stability, has been far better than the performance of the United States and West European economies. In 1981, Japan's gross national product (GNP) surpassed that of the Soviet Union, making Japan the second largest economy in the world after the United States. Its total output now is close to half that of the United States. As the Japanese population (118 million in 1983) is half the United States population, on a per capita basis the two economies' productivities are about equal.

In contrast, United States economic performance has been less satisfactory. The rate of productivity growth in the United States economy, which was 2.4 percent per year on the average between 1948 and 1973, dropped to -0.5 during 1973–1976 and has shown little upward trend over the past seven years. In the mid-1960's a new phenomenon of "stagflation," the coexistence of unemployment and inflation, emerged and apparently became a built-in feature of the United States economy. This frustrated the nation's economic policymakers. Trusting in the traditional (Keynesian) fiscal-monetary policy paradigm, which assumes a trade-off between unemployment and inflation, they were ill-equipped to deal with the new phenomenon. Under President Ronald Reagan's draconian tight-money policy, the rate of unemployment vaulted above 10 percent in the spring of 1983, a rate unprecedented since the Great Depression of the 1930's.

Today the United States and Japan are the world's two largest economies, together producing about one-

third of the total global output. When one large economy interacts with another large economy, some economic friction between the two is more or less unavoidable. When one economy grows faster than the other, the likelihood of trade disputes increases. The differences in the historical, cultural and philosophical backgrounds of the trading partners only exacerbate the problem.

Foreign trade plays an asymmetrical role in the process of economic growth. High growth promotes both exports and imports, and each country can make the internal adjustments necessitated by trade relatively easily, as long as the economy is growing. Through trade, resources are better allocated internationally, raising the productivity of trading nations. Higher productivity leads to more growth and trade. In other words, in a period of prosperity, growth and trade form a virtuous circle, simultaneously promoting each other.

Once the economy starts to stagnate, however, the relation between the two assumes the character of a vicious circle. Imports of foreign goods are viewed not as a provider of consumer welfare but as the cause of domestic unemployment, a threat to the nation's economic security and survival. The domestic producers, typically possessing disproportionately greater political clout than the consumers, push for protection. We are all in favor of competition as long as we are winning. It is much easier and emotionally more appealing for the victims of foreign competition (imagined or real) to blame the foreigners (who have no votes in the importing country) than to face facts. Protectionism reduces the volume of trade, which leads to higher costs, more stagnation, and stronger pressure for another round of protection. Recession makes trade a sensitive issue prone to politicalization.

In light of these observations, it is no surprise that United States-Japanese political relations in recent years have almost exclusively revolved around the issues of trade friction. The pattern has been drearily repetitive. Japanese exports of a certain product category begin to penetrate the United States market rapidly, resembling a "torrential downpour." The affected United States producers react by exerting pressure on Congress to enact protective measures. The United States government urges the Japanese government to curb the exports "voluntarily," with a hint of reprisal

if the request is not met. After rounds of hurried negotiations a political compromise is reached in the form of an "orderly marketing agreement" or "voluntary export restraint." A temporary calm prevails until, a year or two later, the next "torrential downpour" strikes the United States market, and the process repeats itself. First, it was textiles, then steel, followed by color television sets, and automobiles. After each round, the product category moves up to a more advanced stage of manufacture. In 1982-1983 the controversy reached the area of high technology, the frontier of American industry.¹

What are the issues? The United States contends that Japan's export surplus with the United States is excessively large and contributes to unemployment in American industries to a politically unacceptable degree. In the minds of many Americans, the United States government and the American mass media have succeeded in implanting an image of Japan as a highly protectionist nation, a free rider, who takes full advantage of the system of free trade in promoting its exports and keeps foreign goods out of its domestic market by maintaining trade barriers of one sort or another.

Japan countercharges that the United States is making it a whipping boy to disguise the internal mismanagement of the American economy. Japan complains that United States claims are often based upon false information or highly misleading interpretations of the Japanese economy.

Amidst the confusion and heat of controversy the "truth" gets blurred. The voice of economic rationality is drowned by the palaver of political expediency. Whether a given argument is the whole truth, a half-truth, or an inconsistent, self-serving rationalization of one's troubled position becomes purely a matter of perspective.²

Japan and the United States currently exchange goods worth \$60 billion. Japan is the second largest importer of American products, after Canada, and is the largest importer of American agricultural goods. The United States charge is not that Japan does not import from the United States but rather that it does not import enough. It is a fact that Japan's export surplus vis-à-vis the United States has grown continuously since the mid-1960's. It was \$0.9 billion (annual average) in the latter half of the 1960's, rose to \$2.4 billion during the first half of the 1970's, and to \$8.7 billion in the second half of the same decade. It reached \$15.8 billion in 1981 and \$16.8 billion in 1982.

The controversy centers on the interpretation of this fact. From the viewpoint of pure international economics, the United States fixation with Japan's trade surplus with the United States makes little sense. In the context of multilateral trade relations, the bilateral trade balance as such is not a proper guide to the diagnosis of a nation's international economic prob-

¹See James C. Abegglen, "U.S.-Japanese Trade Competition in the 1980s: Changing Context and New Issues," in *U.S.-Japan Economic Relations: A Symposium on Critical Issues* (University of California, Berkeley: Institute of East Asian Studies, 1980), pp. 1-12.

²The controversy led to the formation of the Japan-United States Economic Relations Group (the so-called "Wise Men's Group") consisting of eight prominent citizens of the two countries. Its *Report* (January, 1981) and *Supplemental Report* (October, 1981) present balanced and dispassionate discussions of the problem.

lems. Depending on comparative advantages among trading nations, Country A may run a persistent trade surplus with Country B, which is offset by A's trade deficit with C, and so on. Further, "invisible" trade must be reckoned with. Nowadays, the weight of services in world trade is large and growing. It is sensible to examine the multilateral current-account balance of each nation, which includes trade in merchandise as well as services.

It is something of a myth that Japan is export-crazy. It exports about 13 percent of its GNP, a ratio much lower than those of all other major industrial countries except the United States. It runs a trade deficit vis-à-vis Canada and Australia, whereas the United States holds a favorable balance of trade with these countries. Japan's current-account balance was in deficits of \$4.7 billion in 1974, \$8.8 billion in 1979, and \$13.2 billion in 1980. Japan maintains chronic deficits in service trade globally and vis-à-vis the United States. Most Americans, troubled by the magnitude of the United States trade imbalance with Japan, fail to realize that the United States trade surplus with the European Economic Community (the West European market) was \$17.7 billion in 1981, which is larger than the size of Japan's trade surplus with the United States in recent years.

Many of the United States charges against Japan are based, in varying degrees, on a syllogism that proceeds as follows: (1) protectionism, as it restricts imports and encourages exports, results in trade surplus; (2) Japan runs a trade surplus; (3) therefore, Japan must be practicing protectionism. The trouble with this logic is that there is no a priori reason for the starting premise to be true nor does it meet empirical tests.

In the 1950's Japan was highly protectionist and suffered from persistent trade deficits because its industries, while badly needing to import foreign capital goods, technology and resources, were still too inefficient to compete effectively in the world market. Japan's trade liberalization began in 1960, and its capital liberalization in 1967.³ In addition to the GATT (General Agreement on Tariffs and Trade)-sponsored "rounds" of multilateral tariff concessions, Japan has in recent years been lowering its tariff rates unilaterally. Today Japan's overall tariffs are actually lower than those of the United States or the West European countries.

NONTARIFF BARRIERS

After establishing that Japan was no longer protectionist in terms of import duties, the United States

shifted the focus of its charges to NTB's (Nontariff Barriers), a concept that is harder to define than straight tariffs but which usually refers to import quotas, "buy-national" laws, administrative tariffs (e.g., stiff and cumbersome inspection procedures that serve as de facto trade barriers), and the like. Sometimes the coverage of NTB's is stretched to all imaginable "invisible barriers," like the Japanese language, the insular nature of the Japanese business community, the government's administrative guidance, industrial policy, culture, and the "mind-set" of the people.

The elusiveness of "invisible barriers" makes it easy for a critic to name anything as a potential obstacle to trade. But experts on both sides agree that Japan today maintains no more NTB's than the United States. What follows is a rundown of those NTB's that have attracted much media attention.

Japanese exports of textiles to the United States are subject to multilateral as well as bilateral import restrictions. Foreign steel (including Japanese steel) faces a quantitative import restriction in the United States market, based on the so-called trigger-price mechanism. This uses the production cost of Japanese steel as the criterion for determining whether an anti-dumping duty should be levied on foreign steel sold in the United States. An orderly marketing agreement (a euphemism for an import quota) was imposed on Japanese color television in the late 1970's, although it was later dissolved in exchange for the Japanese firms' agreement to invest directly and produce television sets in the United States. American imports of Japanese automobiles since 1980 have been restricted to 1.68 million units per year under a voluntary export restraint agreement, which was extended for a third year in the spring of 1983. At present, about 40 percent of Japanese exports of manufactured goods to the United States are subject to some form of quantitative restriction.⁴

Agriculture is protected in most countries in the world, and Japan is no exception. Its import dependence on foods, however, has risen considerably over the past 30 years. On a caloric basis, 50 percent of the foods consumed in Japan today come from overseas (mainly from the United States). Ninety percent of the Japanese demand for soybeans is met by imports from the United States.

Having experienced starvation during and shortly after World War II and the oil crises more recently, the Japanese are acutely conscious of the vulnerability of their economic existence and are generally hesitant to become more dependent on foreign foods. The importance of food security for Japan is something the average American finds difficult to understand. Besides, Japanese farmers, overrepresented under the existing electoral system, have unignorable political clout with the ruling Liberal Democratic party.

The United States has been pushing for liberaliza-

³Japan's trade and capital liberalization is chronicled in Robert S. Ozaki, *The Control of Imports and Foreign Capital in Japan* (New York: Praeger, 1972).

⁴Sueo Sekiguchi, "Response to the U.S.-Japan Economic Friction," (in Japanese), *Japan Economic Research Center Report*, April 1, 1983, p. 18.

tion of Japanese agriculture, especially beef and citrus. This move is peculiar in several respects. The United States itself restricts foreign beef imports to 10 percent of domestic consumption. Most American states ban imports of fresh Japanese mandarin oranges, ostensibly for quarantine reasons. Ironically, the total liberalization of the Japanese beef market would mainly benefit Australia, where beef is cheaper than it is in the United States. In the unlikely event of a wholesale liberalization of Japanese agriculture, United States agricultural exports to Japan, it is estimated, would increase by \$300 million–\$400 million, making a small dent in the total bilateral trade imbalance.

Public corporations in Japan play more varied and important roles than in the United States. The United States government has been critical of their procurement policies, which allegedly discriminate against American firms. The center of attention has been NTT (Nippon Telegraph and Telephone Corporation), a purchaser of large quantities of high-technology products and advanced communication equipment. NTT contends that as a vital public utility it can afford nothing less than absolutely reliable products together with stringent delivery terms. The truth of the matter is that for years it has practiced closed bidding, open only to a tightly knit group of long-term suppliers. Many qualified but excluded domestic firms have been equally critical of NTT's procurement policies.

From the Japanese perspective, the United States position that the free access to the American market that Japanese producers of high-technology products and communication equipment enjoy should be reciprocated appears to be an attempt to interfere with Japan's domestic affairs. Here is an instance of the difficulty in striking a compromise when two countries follow different philosophies on the role and jurisdiction of public corporations in the nation's economy.

It has been charged that Japan's safety standards, inspection procedures, environmental regulations applied to imported automobiles, medicine, food additives used in processing foods, and the like are too strict and cumbersome, serving as effective NTB's. Whether this charge is justified is arguable. The United States is noted for maintaining its own strict standards in these areas. Japan's environmental protection law was modeled on American environmental legislation. The American complaint lacks the understanding that Japan is a small country with a high population density, where strict safety standards and environmental regulations are a matter of serious concern.

⁵The MITI's stated basic principles on high technology are: 1) high technology should be fully exploited to revitalize the world economy; 2) each country should not protect its high technology; and 3) positive international collaborative research and development in high technology should be encouraged.

In Japan, the laissez-faire tradition is weak, and the Japanese Ministry of International Trade and Industry (MITI) routinely pursues industrial policy to facilitate the structural transformation of the economy and to promote productivity gains in strategic sectors. Recession cartels (allowing the firms in a depressed industry to agree on production quotas in order to prevent cutthroat competition) and rationalization cartels (permitting firms to form a consortium for research and development) are both legal under the Japanese Anti-Monopoly Law. MITI has been administratively guiding resource reallocation in the hard-hit energy-intensive industries like petrochemicals and aluminum smelting and has promoted research and development in industrial machinery as well as advanced computer technology. While MITI has been adopting an increasingly open policy toward foreign firms,⁵ the whole apparatus of Japan's industrial policy strikes the American observer as a formidable barrier to the free flow of American capital and goods into the Japanese market.

The distribution system in any country tends to be hard for uninitiated foreigners to comprehend, but the system in Japan is said to be particularly difficult. While internal competition among vertically integrated groups of dealers is fierce, the structured competition allegedly discriminates against foreign products since each store lacks complete freedom to choose products from sources other than group-affiliated suppliers.

Also, import distributors often form cooperative associations resembling covert import cartels. Many of these associations, however, in fact serve import-promoting functions like the reduction of marketing costs through joint overseas market research. Distribution (including small-scale retailing) is fully liberalized, although there has been no direct major American investment in the area. As of March, 1983, there remained four explicit import cartels, on corn, sugar, onions and silk. Of these, only the silk cartel specifically restricts its imports; the others are bilateral intergovernmental agreements or countermeasures against monopoly foreign exporters.

Despite the ongoing gradual deregulation of Japan's financial institutions, its money market also remains substantially controlled relative to American standards. The United States has been demanding that American banks in Japan be given all the freedom Japanese banks have in the United States.

This reciprocity principle, not to be confused with providing "equal-to-domestic-banks status" for foreign banks operating in Japan, is nearly impossible to put into practice. To "reciprocate," Japan must restructure all its financial institutions and laws in order to conform to the American system. The alternative, reforming both the Japanese and American systems into a new, homogeneous system in order to make the reciprocity principle freely applicable in both directions,

is an equally impossible task. If bilateral reciprocity is difficult enough, multilateral reciprocity is unachievable. In lieu of one common set of banking rules for all countries, there would probably be many bilateral rules between paired nations. Under such an arrangement the international financial order as it exists today would, in effect, be destroyed.⁶

The United States spends about 5 percent of its GNP on defense, and West European countries spend 3–4 percent, whereas Japan's defense expenditures have accounted for less than 1 percent of its GNP. As part of the "free rider" argument against Japan, Japan's low-level defense spending has been cited as a cause of economic friction with the United States. According to this argument, by not spending enough on defense (thanks to the United States contribution to Japanese national security), Japan is able to allocate more resources to nondefense sectors; the resultant productivity gains in those sectors lead to avalanches of Japanese products in the American market.⁷ Some American politicians have suggested that Japan should "return" a portion of excess earnings from its export surplus with the United States, matching the cost to the United States of defending Japan.

To argue that Japan should sizably increase its defense expenditures as a means of correcting the bilateral trade imbalance borders on frivolity. Major rearmament would have many far-reaching and potentially grave consequences, and it is not at all certain that such a course of action would be in the best interests of Japan, the United States, and the world. To cite a few possible effects, major Japanese rearmament might alarm the countries of Southeast Asia and destabilize the region. It would certainly complicate Sino-Soviet-Japanese relations, potentially igniting a deadly arms race. Given the militant pacifism of the Japanese voters, a constitutional crisis might result, centering around the status of Article 9 of the Japanese constitution, which explicitly prohibits Japan's rearmament; the resulting change in the nation's political landscape would not necessarily be favorable to the United States.

A fully armed Japan might begin to pursue an independent foreign policy. Coupled with rising nationalism, such a change would probably cause a steady erosion of the United States-Japanese alliance of the past 30 years. Furthermore, Japan might become an efficient exporter of weapons, threatening the share

of the world market now held by the United States.

Real and heated as they are, United States-Japanese trade frictions are not merely a bilateral problem to be dealt with on a bilateral basis; they are also a symptom of a much larger malaise that is plaguing the world economic order. Japan's further liberalization of the remaining trade obstacles, more direct investment in the United States, cultivation in the United States of an export consciousness to accord with the extent to which the American economy has become integrated with the world economy, encouragement of American exports to Japan of (Alaskan) oil, lumber, and coal: all would be palliatives. The large issues transcend these approaches.

During the nineteenth century and the early decades of the twentieth century, an international economic order was maintained under Pax Britannica, with its triple pillars of classical liberalism, the gold standard, and British hegemony. After World War II, there emerged a new international order, Pax Americana, based upon growth-and-welfare-oriented Keynesianism, the gold-dollar standard, and American hegemony. The order served the world well for about a quarter of a century, but began to disintegrate in 1971 with United States suspension of full gold-dollar convertibility.

United States-Japanese trade disputes are only a reflection of the global economic disorder since the United States has lost its world leadership. The United States is still the largest economy in the world but is no longer powerful enough to hold the cohesion of Pax Americana, thanks to the rise of West Europe, Japan, the oil cartel, and the third world. Of these rival groups, the expansion of the Japanese economy has been the most spectacular. In this sense it may be said that Japan has made the greatest contribution to the "destruction" of the postwar international economic order.

The demise of the fixed exchange rates system under the Bretton Woods formula (more accurately, the adjustable officially pegged exchange rates system with the dollar as the key currency fully convertible into gold) in 1971 was followed, after an interim period of currencies realignments, by the commencement of the flexible exchange rates system in the spring of 1973. The results of this new system (sometimes called a "system of no system") have been mixed.

Theoretically, the greatest virtue of the flexible rates system is that since a nation's currency freely appreciates or depreciates toward restoring and maintaining its external equilibrium, a nation can pursue its own macroeconomic policy without worrying about any ad-

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⁶This new concept of "reciprocity" is discussed in William R. Cline, *"Reciprocity": A New Approach to World Trade Policy?* (Washington, D.C.: Institute for International Economics, September, 1982).

⁷A simulation study indicates that heavier defense expenditures would have caused only a modest reduction in Japan's growth rate. See Daniel I. Okimoto, "The Economics of National Defense," in D. I. Okimoto, ed., *Japan's Economy: Coping with Change in the International Environment* (Boulder, Colorado: Westview Press, 1982), pp. 231–283.

Robert S. Ozaki's latest book is *Keizaigaku de Ningen o Yomu* (An Economic Interpretation of Human Behavior) (Tokyo: Toyo Keizai Shimpō Sha, 1983).

"In Japan, people try to cooperate in discovering and working toward common goals. Government, business, labor and the public . . . obviously see things in the same way. . . . The notion of 'national interest' overrides that of 'fair play' and foreign economic powers are politely greeted and kept at the door."

Industrial Policy and Employment in Japan

BY KOJI TAIRA

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IN the spring of 1981, Japanese pride about Japan's economic performance was soaring to an unprecedented height.* But it was disturbingly combined with an open show of disgust toward the United States for its alleged inability to put its own house in order. Statistics just becoming available in the spring of 1981 indicated that despite the second oil shock of 1979-1980, in 1980 Japan experienced an annual inflation rate of 7 or 8 percent, an unemployment rate of only 2 percent, and a healthy rate of economic growth at nearly 4 percent. In contrast, the United States suffered from "stagflation"—double-digit inflation, an unemployment rate four times as high as Japan's and a negative rate of economic growth.¹ The Japanese gleefully acknowledged flatteries like Ezra Vogel's *Japan as Number One* and rejoiced in the bad news of America's plight brought to them by books like Lester Thurow's *The Zero-Sum Society*.² These books, in translation, were instant best-sellers in Japan. Japanese opinion leaders devoted many essays and lectures to the "American disease."

In the midst of the euphoria over "Japan as Number One," many neglected to look critically at the long-

term trends of the Japanese economy. The annual economic growth rates were reduced from 10 percent before the first oil shock to around 5 percent between the first and second oil shocks, and then to 3 percent after the second oil shock. The events in the rest of 1981 and afterward indeed turned out to be chilling to those who earlier celebrated Japan's economic superiority. As the year wore on, Japan's economic recession became increasingly visible, culminating in a negative growth rate in the fourth quarter.

Thus the Japanese began 1982 with the admission that Japan was not yet powerful enough to be free from the impact of world economic conditions. It became popular to watch the United States economy closely so Japan might use the United States recovery for a new round of economic growth. However demeaning it may have been, it was clear that Japan still depended on the United States to pull it out of the recession and resume its economic growth. Remarkably, the Japanese were not able to visualize an independent economic policy. For an economic giant like Japan, this should have been regarded as an irresponsible refusal to lead. In the summer of 1982, the Hitachi-Mitsubishi-IBM industrial espionage cases broke out, momentarily deflating Japan's pride as a technological equal of the United States. In the fall there was a Cabinet crisis. With the new Cabinet of Prime Minister Yasuhiro Nakasone, Japan again fell into a familiar pattern of de facto dependence on the United States over a wide range of national and international policy matters.

INDUSTRIAL POLICY

Despite volatile public sentiments, frequent changes in top political leadership and international economic frictions, there has been considerable orderliness in the evolution of the Japanese economy. Guided by the activist bureaucracy of the Japanese government and the dynamic oligopolistic technostucture of the private sector,³ Japan has been practicing the most efficient type of industrial policy the world has ever known by combining the official visions of the evolving economy and the competitive adjustments of private

*I am grateful to the Japan-United States Education Commission (Fulbright program) for a valuable lectureship in Japan in 1981-82. The 10-month period was the longest uninterrupted stay I had experienced in Japan and in many respects it was full of culture shocks. I am enormously indebted to many Japanese for new thoughts and approaches.

¹In the summer of 1981, the research institute of the Mitsubishi Bank published a sobering reassessment of United States-Japanese comparative statistics. The unemployment statistics particularly interested me. When recalculated applying the United States definitions and methods, the official unemployment rates of Japan had to be multiplied roughly by two in order to be conceptually comparable with the United States statistics. See Koji Taira, "Japan's Low Unemployment: Economic Miracle or Statistical Artifact?" *Monthly Labor Review*, July, 1983.

²Ezra F. Vogel, *Japan as Number One* (New York: Harper Colophon Books, 1979); Lester C. Thurow, *The Zero-Sum Society* (New York: Basic Books, 1980).

³"Technostucture" is J. K. Galbraith's coinage. For the application of the Galbraithian view of the modern economy to Japan, see M. Bronfenbrenner, "Japan's Galbraithian Economy," *Public Interest*, fall, 1970, pp. 149-157.

business to shifting profit opportunities.⁴ It is a truism that under rapid economic growth a whole economic structure becomes obsolete within a relatively short period. The adjustments to the relentless structural changes, to be smooth and least wasteful, require all concerned to shift attention, efforts and resources rapidly from activities becoming obsolete to those more relevant to a new economic stage.

Industrial policy anticipates possible structural shifts in light of historical experience and the current state of affairs. The most desired pattern of change is chosen through the participation of the firms, unions, consumers and other interested parties likely to be affected in one way or another by the implementation of the policy. From a bureaucratic standpoint, industrial policy is the conceptualization and management of priorities thought to be strategic in shaping the economy into a desired structure. As practiced in Japan, industrial policy does not imply direct involvement of the government in the creation of industries. Rather, private firms and entrepreneurs are the primary agents for goal attainment. But they are free to determine to what extent they want to participate in activities called for by policy, subject to the incentives and prospects that policy offers. From the standpoint of the private firms, industrial policy is a low-cost R&D (research and development) service that generates a wealth of useful information on how the economy is changing.

To the extent that industrial policy promises and delivers a more productive economy, no one should lose in the long run and there should always be enough resources to compensate some people for their short-run losses due to policy. From the standpoint of consumers and users of products favored by policy, industrial policy is a subtle "buy national" (for example, "buy Japanese") campaign. The national consensus that industrial policy commands is the source of its success. It is plausible to suspect that Japan's unusual success with its industrial policy may not be independent of the intense nationalism one senses in the Japanese irrespective of their jobs, classes or ideological fronts.

THE MICROELECTRONIC REVOLUTION

The rapid progress in Japanese electronics after the first oil shock of 1973 came from the continued vigor of the electronics industry and a major shift in industrial policy in the industry's favor. The 1960's style of

⁴The principal unit of the Japanese government charged with industrial policy is the Ministry of Industry and International Trade (MITI).

⁵I visited some factories in this transitory state. Personnel managers pointed out that the biggest headache was how to retrain machinists with their pride in mechanical skills into electronic technicians happy to live with regulators and controls. Obviously, machinists felt deprived losing their firm physical grip on things tangible and real.

rapid economic growth, which was led by petrochemicals, steel, heavy machinery and shipbuilding, suddenly became obsolete when oil, minerals, clean air and water were no longer cheap. The government undertook a radical reorientation of policy by emphasizing the end of old-style industrialization and the beginning of a new era based on industries that would produce more value-added products with less energy, resources, pollution and labor than old industries (which Americans later dubbed "smokestack industries"). It was to be the era of sophisticated machine tools, electronics, communications, information processing and services.

In search of a product of basic importance to the new industrial era, the Japanese arrived at what they called "the rice of industry" (the basic "nutrient" for an entire industry), which was none other than the microelectronic device known as the semiconductor, integrated circuit, or memory chip. When the tiny chips were embodied in machinery and equipment, a veritable industrial revolution began. In factories, mechanical processes were taken over by electronic controls: e.g., numerical controls, machining centers, robots, flexible manufacturing systems, unmanned factories, office automation, computer-to-computer communications, electronic shopping and banking, and so on. A transitory state of technology in which mechanical features are not yet fully replaced by electronic controls was called "mecha-tronics" (Americans called it electromechanics).⁵

Industrial policy played a vital role in promoting the production of computers and memory chips. The goal was to produce the best chips in the world and the best computers embodying those chips. The Japanese "targeting" habit has recently been called into question, but there is essentially nothing wrong with it. Ever since Japan was forced open for international trade in the middle of the nineteenth century, many "targets" have been raised and fulfilled one after another under slogans that implied "catch up with the West." It is rather strange suddenly to question targeting in the 1980's when, after having fulfilled so many targets, Japan has begun to worry about the dearth of targets to fulfill. If one were forced to formulate a "target" for today, it would be "catch up with IBM."

For a long time the Japanese computer industry was protected from foreign competition. In recent years the protection has been eased in steps as the domestic industry has gained competitive strength. The government has always lent a hand to R&D for newer and more sophisticated computers, the latest being a "fifth generation" based on "artificial intelligence." There is a special reason for this emphasis on artificial intelligence. In Japan the development of the software necessary for the full utilization of hardware lags behind the manufacture of hardware. The development of artificial intelligence would relieve the software bottle-

neck, thanks to the computer's ability to take oral commands and solve problems on its own.

Although the Japanese computer industry's progress has been impressive to date, the United States computer industry led by IBM still seems substantially ahead of the Japanese in technology and market size. American leads in software are especially marked. In 1978, Japan's Fujitsu outsold Japan IBM in the Japanese hardware market. The event was widely celebrated as a great "national" achievement for Japan. The Japanese did not conceal their nationalistic fervor in talking about this feat. They quite openly thought of interfirm competition in terms of international rivalry (Japanese firms against foreign firms), not as competition among firms in a given product market. The latter would be the American view of competition; it would be difficult to find Americans who would wave the American flag to cheer IBM on, the way many Japanese would wave the Japanese flag for Fujitsu, Hitachi, Matsushita or any Japanese firm.

This also implies that Japanese consumers quite spontaneously "buy Japanese," while Americans are happily blind to the national origins of goods they buy (which can be praised as the American concept of "fairness"). Japanese software workers today are distressed that much of the programming language they use is English, not Japanese. They also grudgingly buy programs developed by Americans to relieve their software shortage. The great attraction of the "fifth generation" computers is the hope that they will take oral commands in Japanese and vindicate the national shame in software disadvantages.

THE WAR OVER CHIPS

It is clear that the Japanese consider international competition in the production and marketing of integrated circuits (memory chips) the moral equivalent of war. By 1983 Japan had won many battles. Here is how the war is being fought, according to a widely read, almost official, almanac of information:

The semiconductor technology is American in origin. With an eye on its great future, we imported it from America. However, the IC [integrated circuit] industry required enormous resources for investment in production facilities and R&D. For this reason, government and business became one body (*kanmin ittai*) to promote R&D for this industry. In this way Japan made rapid progress in the production of LSI (large scale integration) and VLSI (very large scale integration). With respect to the latter our progress even outpaced America's.⁶

Note the phrase *kanmin ittai* (government and private

business as one body), a traditional phrase with overtones of strong moral approval in Japan. A similarly close cooperation between government and business in the United States would horrify everyone. But note further that Japan's corporatist approach to the promotion of the targeted industry seems more efficient in hitting the target than the outcome of individualistic American competition.⁷

At the outset the United States was dominant in the production and trade of all integrated circuits, supported by its sizable computer industry. As the scale of integration increased, however, the United States producers increasingly fell behind the Japanese. By their miscalculation of the demand for the 16K RAM (random access memory) chip, the American producers almost gave the whole market to the Japanese. The Americans initially appeared to be ahead of the Japanese in the move to the next scale of integration, the 64K RAM. But again, something happened along the way and the Japanese came out on top.

In early 1981, chip producers in Japan, Europe, and the United States started the race for the 64K RAM. At that time, a general feeling among United States producers and observers was that the Japanese firms might capture 40 to 50 percent of the market for the 64K RAM. By the end of 1982, Japanese producers had captured 60 percent of the market. In the spring of 1983 Japan's share of the chip market was 70 percent or more. The next scale of integration for which battle lines are drawn is the 256K RAM. The consensus of analysts and producers that emerged in the summer of 1983 was that the Japanese would win this battle too. One reason is that, having lost the battle for the 64K RAM market, United States producers now have less money than the Japanese to invest in the development and production of 256K RAM chips.

THE ROLE OF WORKERS

Although the Japanese electronics industry is a growth industry, interfirm competition in Japan is as fierce as elsewhere, making product life-cycles short, model changes frequent and technological progress rapid. This means that workers are under constant pressure to adapt to new products, new models, or new technology. From management's point of view, the problem is how to ensure the flexible work force required by the changing conditions of production. In a "hire and fire" labor economy like the United States, one does not have to wonder how work force flexibility is ensured. Everyone knows that there are ways of firing incompetent workers to make room for qualified ones. But Japan is allegedly a country of lifetime employment from which many infer that labor is a fixed factor—no firing once hired.

Contrary to the widely held view of the Japanese employment system, the secret of the Japanese art of work-force management is that companies have care-

⁶Ichiro Yano, ed., *Nihon Kokusei Zue* (A Charted Survey of Japan) (Tokyo: Yano-Memorial Foundation, 1981), p. 352.

⁷On Japanese corporatism, see T. J. Pempel and Keiichi Tsunekawa, "Corporatism Without Labor? The Japanese Anomaly," in Philippe C. Schmitter and Gerhard Lehmbruch, eds., *Trends Toward Corporatist Intermediation* (London: Sage Publications, 1979), chapter 9.

fully segmented the work force into permanent and expendable groups. Almost all women workers are expendable, irrespective of their nominal employment status. Young women workers recruited directly from schools are ostensibly pampered as permanent employees, but covertly expected to quit upon marriage after five or six years of service at most. Older women returning to the labor force are always temporary, casual or part-time workers. There are also temporary, casual and contract workers among men.

In the Japanese electronics industry, women workers were as numerous as men by 1970.⁸ If the casual and temporary male workers are taken into account, it is safe to say that more than half the electronics work force at the beginning of the 1970's was expendable. With this margin of expendable workers, employment fluctuations in the Japanese electronics industry during the 1970's were well within manageable proportions. When the reduction of the work force was necessary (as in the downturn of 1973–1975), it was largely the women workers who were axed. When the demand for labor increased after 1975, it was again largely women who filled the new needs.

However, it appears that the size and turnover of the female work force had favorable technological consequences. The fact that the women workers trained for a given technology quit in 5 years or so means that fresh recruits can be trained for a different technology; thus, as long as jobs under any technology are designed to be learned quickly, a rapid turnover of easily available workers can be a blessing for technologically dynamic firms. On the other hand, technological changes require the permanent male workers to keep retraining themselves. Herein lies the subtlety of the Japanese art of employment management. The permanent workers' ability to adapt has been reasonably ensured by a sophisticated recruitment policy that rigorously screens applicants, admitting only those with qualifications compatible with long-term employment relationships.

Nevertheless, it is a good question whether Japanese personnel practices are error-free or how many men (no need to speak of women in this case) are capable of continuous retraining and adaptation during their entire working lives. Again, Japanese firms are generally adept at handling the problems of incompetent or burned-out employees. They are assigned to jobs at their competence level, although in terms of prestige ranking they are given titles equivalent to those of their more functionally capable peers of the same age. A dual track system that consists of a functional hierarchy staffed on the basis of merit and a ranking system

based on seniority that absorbs the employees unfit for the line is thus an indispensable instrument for managing the permanent male work force.

To minimize the risk of a bloated ranking system, major firms make efforts to keep their work forces able and lean by diverting inessential or auxiliary activities to affiliates and subsidiaries. An extensive network of subcontracting relationships with other smaller firms can also be used for the leading firm's manpower deployment. A major firm is typically a headquarters controlling several lesser firms, which can easily shed its own incompetent or burned-out employees by transferring them to those dependent firms. There, thanks to their technological lag, easier jobs remain and the transferees can find a productive and respectable role to play.

To take a broader view, a microelectronic revolution entails wholesale technological changes not only in electronics proper but also in all other industries. The electronics products needed to reequip the whole economy in this way would ensure a strong demand for labor in the electronics industry. But the employment consequences of this revolution in the user industries cannot be equally favorable. In fact, unmanned factories mean enormous reductions in the work force coupled with tremendous job changes for those who can stay employed. The ultimate constraint on the economy's march toward full electrification seems to be the human ability to learn, train and adapt to the new techniques and processes of production. The small number of major firms with crack work forces may do well. At present, a majority of Japanese firms do not seem to be organized for efficiently training their employees for the microelectronic revolution. The training offered in many firms is said to be either conventional, informal ad hoc learning-by-doing or mysterious osmosis through small groups like "quality circles." As a result, the workers keep telling themselves that everything will turn out all right in the long run.

Can labor unions help? Japanese unions have so far been cooperative, accepting training, transfers and reassignments required by technological change. Procedures have been worked out through consultations and collective bargaining. However, it is remarkable that Japanese unions have never sought any control over the pace and kind of technological change in order to minimize the pains of learning and adaptation that workers may suffer. Rather, the popular assumption

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⁸Here and elsewhere I have drawn on interviews with managers and union leaders in selected electronics firms in the summer of 1981 and my general impressions of Japanese behavior while living in Japan in 1981–1982.

"What is the likelihood that [the Japanese] will succeed in their drive to pioneer the technologies that are likely to underlie the new industries of the next decade?"

Japanese Technology: Successes and Strategies

BY LEONARD LYNN

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IN November, 1982, the cover of the *New Republic* warned Americans of a "hi-tech Pearl Harbor." The article inside, by Robert Reich,* argued that the United States is waging a technology battle with Japan. What's more, Reich suggests, this is a battle the United States may already be losing. In July, 1982, the *Yomiuri Shimbun*, Japan's largest mass-circulation daily, carried a series of articles that also used the images of the battlefield. The series was entitled "Nichibei gijutsu senso," "The Japan-United States Technology War." The articles spoke of the tactics and strategies used by United States firms and the United States government to slow Japan's technological advance. One repeated, for example, the widely held Japanese view that the United States Federal Bureau of Investigation (FBI) "sting" operation that "entrapped" Hitachi was a tactic in the battle between the United States and Japan.

This use of combat metaphors in discussing technological competition between the United States and Japan is disturbing. There are some loose parallels to the growing conflict between the United States and Japan in the years before World War II. In the 1930's the Japanese felt highly vulnerable. They were dependent on raw materials that were controlled by countries that (the Japanese believed) had been watching Japan's rise with barely disguised hostility. In the 1930's Japan's very survival, it seemed to many Japanese, was threatened by boycotts and embargoes. Military expansion seemed to be the only answer. The Western allies took Japan's efforts to reduce its dependence on them as aggression, and tightened their economic quarantine. The Japanese became more aggressive.

The Japanese have never lost their sense of vulnerability. Indeed, they are more dependent than ever on

foreigners for their raw materials and markets. The answer that has been increasingly stressed is "technology." The Ministry of International Trade and Industry's *Vision for the 1980's* favors this approach; so do the recent annual *White Papers* of the Science and Technology Agency. And so do countless articles in magazines and newspapers.

In pursuing this strategy the Japanese are supported by what has been called a "unique social capacity for innovation."¹ The Japanese learn quickly about new technologies being developed overseas and introduce them with remarkable speed. Frequently, the new product technologies are improved, and the resulting products achieve world market domination. The new production technologies are often employed far more quickly in Japan than in the countries where they originated. It is only in the creation of basic new technologies that the Japanese have appeared to lag. To remedy this apparent shortcoming, Japan's policymakers have been attempting to reshape Japanese institutions to make Japan better able to produce new state of the art technologies.

The results have been impressive. By 1977, Japan was supplying one-eighth of the world's technology-intensive exports, mostly based on technologies originated in other countries.² The percentage is surely higher in 1983. At the end of 1982, the Japanese were using more than three times as many programmable industrial robots as the Americans, even though Japan's population and its GNP (gross national product) were less than half that of the United States.³ Perhaps most indicative of the challenge posed by Japanese technology, in 1982 and 1983 books and articles were appearing suggesting that in the 1990's Japan might well lead the world in computers, biotechnology and other new technologies that seem to provide the basis for an emerging world economy.

How do the Japanese manage to find out about new technology so effectively? Why are they so quick to use new production technologies like robots? What is the likelihood that they will succeed in their drive to pioneer the technologies that are likely to underlie the new industries of the next decade?

Since 1950, the Japanese have signed some 36,000 license agreements to import foreign technology. The cost of these agreements was approximately \$12 bil-

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¹Kazushi Ohkawa and Henry Rosovsky, *Japanese Economic Growth: Trend Acceleration in the Twentieth Century* (Stanford, California: Stanford University Press, 1973), pp. 219-227.

²Defined by the Japanese Science and Technology Agency as products such as electronics equipment and precision machinery. More recent data have not been reported in the *White Papers*.

³Leonard Lynn, "Japanese Robotics: Challenge and (Limited) Exemplar," *Annals of the American Academy of Political and Social Sciences*, November, 1983.

lion. At one time it was thought that as Japan narrowed its technological gap with the United States (the source of more than half its agreements) and other Western countries, its dependence on foreign technology would decrease. This has not been the case. The number of agreements signed in 1981 (2,076) was about the same as in 1971 (2,007), and far higher than that in any year before 1971. Payments for technology in 1981 reached \$1.7 billion, the highest in history.⁴ Nor do statistics on license agreements tell the whole story. Massive amounts of technology have also been transferred to Japan via books, journal articles, patents and foreign products (e.g., through "reverse engineering"), as well as by Japanese attendance at United States and European universities, and by industrial espionage.

The imported technologies have clearly been vital to the development of Japan's economy as an international force. Foreign steelmaking technologies like the basic oxygen furnace and continuous casting, for example, helped reduce Japanese production costs from among the world's highest to among the world's lowest. Transistor technology imported by the Japanese in the early 1950's helped build the modern Japanese electronics industry. Kawasaki Heavy Industries, the world's leading producer of industrial robots, makes its robots under license from an American firm. In many instances the Japanese have been quick to see possibilities for a technology that the inventors overlooked. The American developers of transistors, for example, tended to regard them as primarily suitable for use in hearing aids and expensive radios. Sony prospered by seeing their potential as a component of cheap radios.⁵

Several organizations and practices contribute to Japan's ability to identify promising new technologies quickly, acquire them on a favorable basis, and use them with unparalleled effectiveness. One type of organization that has long been a major conduit of technological information to Japan is the *sogo shosha*, or

general trading company. As long ago as the 1920's Mitsubishi established subsidiaries in Europe to locate technologies that might be introduced into Japan. It was engineers from Mitsubishi Trading, not from the steel companies, who first collected information on the revolutionary new basic oxygen steelmaking process as it was developed in Austria.⁶ In the case of the basic oxygen steelmaking process, trading firms helped the steelmakers collect information on the technology and on the legal environment. They did not directly import the technology themselves, but rather served as a "go-between" in the agreement. This is a common role for the big trading firms, but the *sogo shosha* are also among the most prolific signers of license agreements to import technology directly. An analysis of imports made in 1975 listed seven trading firms among the most frequent importers of technology.⁷

The general trading companies have formidable capabilities in information and communications. According to one report, the top six firms spent nearly \$200 million on these activities in fiscal 1975.⁸ An impressed *Forbes* magazine reporter commented that, "with little exaggeration it is said that the intelligence network of a good-sized trading firm is superior to that of our own Central Intelligence Agency."⁹ While this may be more than a "little exaggeration," each of the half dozen largest trading firms now has well over 100 overseas offices, and Mitsubishi claims the world's largest private telecommunications network. In 1982, Mitsubishi and Marubeni set up "Technology Affairs" departments to increase their ability to facilitate the flow of technology.¹⁰

TRADE ASSOCIATIONS

Another type of organization that helps Japanese firms keep abreast of foreign developments in technology is the trade association. Trade associations in Japan tend to be far more active than their American counterparts in keeping their members informed about developments around the world. The Japan Iron and Steel Federation and the Japan Industrial Robot Association, to give just two examples, routinely collect foreign technical journals, conference proceedings and patents; abstract and index them; and provide translations.

Japanese government organizations have also assisted business in its efforts to learn about foreign technology. In 1957, the Science and Technology Agency set up the Japan Information Center of Science and Technology (JICST). JICST, a public corporation, collects some 10,000 foreign and domestic patents and technical papers each year. Five thousand scientists and engineers abstract these documents.¹¹ The Japanese government organ most identified with "industrial policy" by Westerners, the Ministry of International Trade and Industry (MITI), has large numbers of engineers in its industry bureaus. These experts

⁴Science and Technology Agency, *Gaikoku Gijutsu Dohmyu Hohkoku* (1981), p. 49.

⁵Nick Lyons, *The Sony Vision* (New York: Crown Publishers, 1976).

⁶Leonard Lynn, *How Japan Innovates: A Comparison with the U.S. in the Case of Oxygen Steelmaking* (Boulder, Colorado: Westview Press, 1982).

⁷Science and Technology Agency, *Kokusai Gijutsu Teikei*, 1977 (Tokyo: Nihon Kogyo Shimibun, 1977), p. 213.

⁸Alexander Young, *The Sogo Shosha: Japan's Multinational Trading Companies* (Boulder: Westview Press, 1979), p. 77.

⁹*Forbes*, "A Business in Billions, A Profit in Thousands," July 10, 1978, pp. 89-92.

¹⁰*Japan Times*, August 28, 1982, "Mitsubishi Proves Sogo Shosha Not Declining."

¹¹Robert Gibson and Barbara Kunkel, "Japanese Information Network and Bibliography Control," *Special Libraries*, March, 1980, pp. 155-162. About two-thirds of JICST's funding comes from the government.

keep abreast of foreign developments and have on occasion used their expertise to help gain advantage for Japanese firms importing technology.¹²

To these general mechanisms must be added the activities of Japanese publishers. The coverage of foreign news is intensive. Ezra Vogel recently noted that the Japanese press typically has 40 to 50 English-speaking journalists in the city of Washington, D.C., alone. He says that the United States has just one journalist in Japan who uses Japanese to gather information.¹³ Foreign-language books are routinely translated into Japanese, some 2,650 of them in 1980.

Finally, Japanese business firms tend to be much more active in their surveillance of foreign technology than their United States counterparts. The major Japanese steelmakers, for example, each have offices in several American cities. Most American steelmakers have no offices at all in Japan. Japanese engineers regularly attend engineering and other technical conferences in the United States. The reverse is not true. One study reports that in 1978 some 40,000 Japanese made trips to the United States to study and acquire American technology. Only about 5,000 Americans made similar visits to Japan.¹⁴ At least 50 of Japan's largest business firms have programs in which they send employees to foreign universities. Hitachi, for example, sends about 30 a year. The Massachusetts Institute of Technology has an estimated 150 Japanese engineers and scientists at any given time. In 1981, Pittsburgh's Carnegie-Mellon University had engineering students from Hitachi, Mitsubishi Heavy Industries, Sumitomo Metals, Nippon Steel Corporation as well as the Japanese Science and Technology Agency and the Ministry of Construction.¹⁵

¹²Perhaps the best documented case of this was with the basic oxygen furnace. See Lynn, *How Japan Innovates*.

¹³Ezra Vogel, "The Challenge from Japan," *Comparative Research* 10 (summer, 1982), pp. 1-4.

¹⁴Robert Ronstadt and Robert J. Kramer, "Getting The Most Out of Innovation Abroad," *Harvard Business Review*, March-April, 1982, pp. 94-99.

¹⁵Information based on research I am now conducting under a grant from the Mellon Foundation Program in Technology and Society.

¹⁶For an instance in which this was apparently the case, see Rodney Clark, *The Japanese Company* (New Haven: Yale University Press, 1979), p. 93.

¹⁷During the Hitachi "spy" incident in 1982, some Japanese research scientists complained that if firms like Hitachi shifted some of their investment from overseas surveillance to domestic research, they would have less need for industrial espionage.

¹⁸See "The Business Intelligence Beehive," *Business Week*, December 14, 1981, p. 52.

¹⁹The estimate of the number of Japanese industrial robots was made by Paul Aron, executive vice president of Daiwa Securities. The estimated United States population is from H. Alan Hunt and Timothy L. Hunt, "Robotics: Human Resources Implications for Michigan" (Kalamazoo, Michigan: The W. E. Upjohn Institute for Employment Research, November, 1982), p. 8.

It is difficult to estimate the benefits Japan has gained from these activities. Some have suggested that at least a minor reason for the extreme interest in foreign technology is that the routes of technology flow within Japan are so restricted.¹⁶ Some of the foreign trips and assignments may also serve as incentives to attract better employees. Beyond this, the Japanese may be overinvesting in technological surveillance.¹⁷ Nonetheless, it seems clear that knowledge about technological developments overseas has served the Japanese well in deciding what technologies to import and how to get most of them. Some United States observers claim that such surveillance has been essential to the success of recent high technology research programs such as that for very large-scale integrated circuits and that surveillance will be a key factor in Japan's effort to lead the world in computer technology by 1990.¹⁸

The Japanese have been impressive not only in their ability to discover new technologies developed in other countries and to turn those products into highly competitive export products, but also in their rapid use of advanced new production technologies. The outstanding recent example of this is the use of industrial robots. Although this technology was primarily developed in the United States and was first commercialized here, it is now far more widely used in Japan than anywhere else. Definitions of robots differ from country to country, but an informed estimate is that as of year end 1982 the Japanese were using about 21,000 devices that fit the United States definition of "industrial robot." The United States had fewer than one-third that many.¹⁹

Many explanations have been given for the rapid use of new production technologies by the Japanese. For a time, the most common explanation was that this was simply a fortuitous outcome of wartime destruction. In replacing destroyed industrial facilities, according to this line of reasoning, the Japanese naturally used the most advanced equipment available. The result was that the Japanese had production facilities that were more modern than those in the United States. As the Japanese started replacing post-war plant and equipment with even more advanced facilities, this argument became less compelling. Some note that the more rapid growth of the Japanese economy has allowed Japanese firms to purchase new production facilities continually (though it is not clear whether this is a cause or outcome of the use of advanced facilities). In recent years lower interest rates in Japan have probably made it easier for firms to continue the upgrading of their plants.

Another frequently given explanation asserts that Japanese managers face less resistance to modernization from labor. Three reasons are commonly advanced in support of this assertion. First, it is argued that because major firms guarantee their employees

lifetime employment, the employees do not fear technological unemployment. Some note that much of the pay a Japanese employee receives comes in the form of bonuses tied to the success of the firm. This, the argument goes, makes workers more receptive to changes that enhance productivity. Finally, it is noted that labor in Japan is largely organized in "enterprise unions." Enterprise unions are said to have a strong concern about the viability of the firm with which they are associated. In contrast, American industrial and craft unions are said to be much less likely to identify the interests of their members with those of employers.²⁰

ROBOTICS

Several government policies have also facilitated the introduction of advanced new production technologies by Japanese industry. While the exact activities used by the government to promote the use of new technologies differ from technology to technology, those used in the case of robotics suggest the range of policy involvements.²¹

Many advantages are claimed for the use of industrial robots. They can replace human workers in dangerous or unpleasant environments. In certain repetitive operations they can produce higher quality work. Because they are programmable they offer a much higher degree of versatility than the "hard" automation systems they sometimes replace. The factor that appears to be most important to managers deciding to use industrial robots, however, is that they economize on human labor. In Japan this was of extreme importance. At the time the first industrial robots were produced in Japan, there was mounting concern about Japan's growing labor shortage. One study by the Ministry of Labor forecast a shortage of 3.1 million workers by 1977.²²

The Japanese government took several steps to encourage the use of industrial robots. Often it worked

²⁰While these arguments sound plausible, they have yet to be substantiated by more than anecdotal evidence. Also, some of those praising the Japanese system fail to note that this description only holds for a minority of elite firms.

²¹Much of this account is drawn from Lynn, "Japanese Robotics: Challenge and (Limited) Exemplar," in *Annals of the American Academy of Political and Social Sciences*, November, 1983.

²²Walter Galenson with Konosuke Odaka, "The Japanese Labor Market," in Hugh Patrick and Henry Rosovsky, eds., *Asia's New Giant* (Washington, D.C.: The Brookings Institution, 1976), pp. 587-671.

²³See Ira Magaziner and Thomas M. Hout, *Japanese Industrial Policy* (Berkeley: University of California Institute for International Studies, 1980), pp. 92-93.

²⁴Eugene Kaplan, *Japan: The Government-Business Relationship* (Washington, D.C.: U.S. Government Printing Office, 1972), p. 87.

²⁵"Science and Technology," *White Papers of Japan* (Tokyo: The Japanese Institute of International Affairs, 1982), p. 188-198.

closely with the Japan Industrial Robot Association (JIRA). Indeed, JIRA at different times has been a *jigyo dantai* (a type of public corporation intended to promote economic and social policies) and a *shadan hojin* (an incorporated private association under the auspices of MITI). The executive director of JIRA is a former MITI official. Several measures to encourage the use of industrial robots were implemented under the 1978 Law for Extraordinary Measures for Specific Machinery and Information Industries. Firms that installed industry robots between 1980 and 1983 received an extra 13 percent depreciation allowance. Below market interest rate loans were provided to firms purchasing robots. The Small Business Finance Corporation offered special low interest loans to smaller firms installing robots to improve workplace safety. In April, 1980, the Japan Robot Leasing Company Limited (JAROL) was organized under the auspices of MITI. JAROL leases robots under very favorable terms, and provides systems engineering and consulting services. In its first two years of operation, it leased some 500 robots to around 200 different companies.

These steps to promote the use of robots by Japanese industry (and, not incidentally, to give a boost to Japanese robot makers) were applications of policies developed earlier to encourage the use of machine tools, computers and other productivity-enhancing equipment. Some appeared in the Extraordinary Measures Law for the Rehabilitation of the Machinery Industry (passed in 1956 and revised in 1961).²³ The model for JAROL was the Japan Electronic Computer Company (JECC), which was established in 1961 with government aid. JECC offered low-cost leases to users of Japanese-made computers to help offset the competitive strength that United States-based IBM gained from its ability to lease computers. According to a major early study of Japanese industrial policy, JECC "is undoubtedly a major reason for the survival and progress of the Japanese computer industry."²⁴

CREATION OF NEW TECHNOLOGY

In the English version of a recent *White Paper*, the Japanese Science and Technology Agency repeated an opinion that is often heard in Japan:

Japan may be said to have caught up with or outstripped other major advanced countries in respect to production technology, but is still behind them in respect to innovative and creative science and technology. As the second largest economic power in the free world, Japan is required to make greater contributions in the field of science and technology toward solving the problems confronting society. Under the circumstances, it will be necessary for Japan to make efforts to promote science and technology, particularly creative original technology.²⁵

While Japan has had the world's third largest economy for more than a decade, Japan has fewer Nobel

Prize laureates in science and technology than countries like Sweden, the Netherlands, Austria, Denmark and Belgium.²⁶ Lists of major breakthroughs in technology include few from Japan; indeed most of the technologies most closely associated with Japan (such as transistors) came from other countries. Even such traditional "Japanese" artifacts as "geta" sandals and the Japanese "snake-eye" umbrella originated outside Japan.

For these reasons, the Japanese have a reputation for being uncreative. Americans like to think that creativity requires the individualism American culture fosters, rather than the group-oriented focus of Japanese society. It is easy, however, to identify other facts that have led to an apparent lack of creativity in Japan. Japan is underrepresented in the number of Nobel laureates, as all non-Western countries are, because it has only recently joined the Western scientific community. Nor have the Japanese had much to gain by investing heavily in basic research. The more rational course has been to import basic technology and concentrate on adapting and improving it.

Now that Japan is seeking to move into new state of the art technologies, many of its policymakers feel that its institutions are ill-adapted to pioneering work. Japanese universities are often constrained by organizational rigidities, both in their ability to do advanced research and in their ability to educate. Far more than in the United States, research agenda tend to be set by faculty who are better endowed with seniority than with exciting new ideas. Partly because of this, the universities receive far less support from industry in Japan than in the United States. Nor have the Japanese done well in their efforts to coordinate large-scale efforts involving firms from different industrial groups. There are fewer flows of personnel between firms in Japan, and other channels of communication also tend to be less open than in the United States.

Efforts have been made to address these problems. One effort was the creation of the "Tsukuba Science City," some 60 kilometers from Tokyo. Planning for the new city was begun in 1963; by 1981 (after an expenditure of about \$5 billion) some 43 research institutes had moved from Tokyo to Tsukuba, and more than 6,000 researchers were working in Tsukuba, supported by another 5,000 staff members. The Tokyo

²⁶Science and Technology Agency, *Kagaku Gijutsu Yoran*, 1982.

²⁷Justin L. Bloom and Shinsuke Asano, "Tsukuba Science City: Japan Tries Planned Innovation," *Science* (June 12, 1981), pp. 1239-1247.

²⁸The literal translation of the Japanese name of these projects is "Large Scale Projects."

²⁹United States Congress, Committee on Science and Technology, *Background Reading on Science, Technology and Energy R&D in Japan and China* (Washington: U.S. Government Printing Office, 1981).

³⁰*80-nendai no tsusan seisaku bijon* (Tokyo: MITI, 1980), pp. 81-100.

University of Education was also renamed and transferred to Tsukuba. Planners hoped that the Tsukuba University would offer a more favorable environment for research and education—an environment less dominated by older faculty occupying chairs and more open to students. It was also hoped that this concentration of government and academic research centers would attract industrial research centers and lead to the establishment of a Japanese version of Silicon Valley.²⁷ An effort to address the problem of large-scale coordination between Japanese companies (and between companies and government) was begun in 1966 with the initiation of the National Research and Development Projects by MITI's Agency for Industrial Science and Technology.²⁸

The national projects are explicitly designed for research that is long run, that has potential impact in several industries and that is in the Japanese national interest. Between 1966 and 1979, the government contributed a total of around \$400 million to 16 different national projects. Successes include high performance electronic computer technology that was later used by Hitachi and Nippon Telephone and Telegraph (NTT), as well as desulfurization technology that is being used by some of the power companies.²⁹

In its *Vision for the 1980's*, MITI expresses the Japanese conventional wisdom, i.e., that Japanese industry is being hard pressed by fast-moving rivals in the industrializing countries, that competition between the advanced countries is intensifying (with technology becoming a vital component in that competition), and that Japan has no resources but its brainpower. Japan's economic security, therefore, depends on its ability to create new technology.³⁰

MITI discusses four areas of technology: energy, the quality of life, the information-intensification of industry, and innovation for the new generation of technology. It is the last of these areas that many Americans see as the greatest "threat." To whatever extent it is grounded in reality, the ability of "Japan Incorporated" to make "industrial policy" frightens those who have seen the rise of the Japanese steel, consumer electronics, automobile, machine tool and other industries.

While MITI is interested in several groups of technology that will make up the new generation, including biotechnology, the one that has received the most attention recently is the "fifth generation" computer program. This program was announced to the world at a symposium of computer experts in October, 1981.

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"While the Japanese business community is deeply engaged in a variety of China's economic programs, the Japanese government believes that its active support for China's present political leaders and their four modernizations policy is desirable not only for the promotion of bilateral cooperation, but also for peace and prosperity in the Asia-Pacific region."

Japanese Policy Toward China

BY CHAE-JIN LEE

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IN the decade since their diplomatic rapprochement in 1972, Japan and the People's Republic of China (PRC) have achieved a remarkable degree of mutual cooperation in the diplomatic and economic fields. They have successfully concluded a series of governmental and private agreements and have seen an almost tenfold increase in their bilateral trade. The Chinese eagerly welcome Japanese capital and technology for their ambitious four modernizations policy, and Japan attempts to accommodate China's legitimate diplomatic and economic aspirations with government loans, joint ventures, technology transfers and resource development. Although Japan and China have sometimes suffered from frustrations and setbacks in their increasingly complex relationship, Japan's preeminent status is irreversibly established in China's expanding international economic activities.

In the aftermath of United States President Richard M. Nixon's China journey, Japanese Prime Minister Tanaka Kakuei ironed out the perennial policy cleavages on China in his Liberal Democratic party (LDP) and made his own historic visit to Beijing in September, 1972. He joined Chinese Premier Zhou Enlai in deciding to end their "abnormal state of affairs" and to normalize their diplomatic relations.¹ They disavowed any intention to seek hegemony in the Asia-Pacific region and stated that "each country is opposed to efforts by any country or group of countries to establish such hegemony." The Japanese government unilaterally abrogated its 1952 peace treaty with Taiwan and severed its 20-year-old diplomatic ties with Taipei, but it obtained China's understanding that Japan would continue its nondiplomatic relations with Taiwan. Like Taiwan two decades ago, China renounced its demand for war reparations (estimated at

\$50 billion) from Japan. In order to develop peaceful and cooperative relations, both sides agreed to conclude governmental agreements on trade, navigation, aviation and fishery as well as a treaty of peace and friendship.

The Japanese were pleased with Tanaka's decisive resolution of their most vexing postwar diplomatic problem. Embassies, consulates, top-level government delegations, trade missions and cultural programs were soon exchanged between Japan and China. Encouraged by the euphoria of new Sino-Japanese cooperation, the governments of both countries conducted negotiations on a trade agreement.

A central issue in the negotiations was the most-favored-nation status, which had been conspicuously absent in the nongovernmental trade agreements concluded during the 1950's and 1960's. The Japanese agreed to apply this status to China to the extent that it was allowed by the GATT (General Agreement on Tariffs and Trade) member states, but they were unable to lift the COCOM (Coordinating Committee) regulations restricting Japanese exports of strategic commodities to China. Hence the most-favored-nation treatment was extended to customs duties, customs rules and internal taxes, but not to the issues of import and export licenses. The two governments reached compromises on other issues—a mixed committee on economic matters, the method to renew the agreement, the forms of payment, industrial exhibitions and arbitration procedures. In January, 1974, the Trade Agreement was signed in Beijing; it was the first major intergovernmental pact between Japan and China.² Both countries recognized its importance as a "constitution" for governing the future of their economic relations.

The Japanese, with their crucial fishing industry at stake, faced a particularly difficult challenge in negotiating an agreement on fisheries with China. The Chinese unilaterally established various restricted zones in the Yellow Sea and the East China Sea and declared a 200-mile territorial zone for marine resource protection. While the Japanese emphasized the

¹For Sino-Japanese diplomatic normalization, see Chae-Jin Lee, *Japan Faces China: Political and Economic Relations in the Postwar Era* (Baltimore: Johns Hopkins University Press, 1976), pp. 106–125.

²For the text see Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice* (Berkeley: University of California Press, 1977), pp. 196–198.

principle of unrestricted fishing activities in China's rich coastal seas, the Chinese were unwilling to offer any concession. The Fisheries Agreement was signed in August, 1975, but with some serious disagreements.³ The two governments agreed on the boundaries of permissible fishing operations in the Yellow Sea and the East China Sea, the numbers and capacities of each side's fishing boats to be allowed yearly, the establishment of mutual resource protection areas, and the procedures for communications and assistance in the event of emergencies. In order to oversee the implementation of the Fisheries Agreement and to discuss its possible revision, the two governments set up a Joint Fisheries Committee with three representatives from each side.

THE PEACE AND FRIENDSHIP TREATY

As the negotiations for various agreements progressed, the Japanese initially expected that a treaty of peace and friendship could be concluded without much difficulty because all the principles were articulated in the Tanaka-Zhou joint statement. However, in early 1975 they were disappointed when China suddenly insisted that the antihegemony clause should be incorporated in the main text of this treaty.⁴ The Japanese negotiators would not accept it, arguing that the Tanaka-Zhou joint statement was a political document, whereas the treaty as a legally binding document should not use an ill-defined and controversial concept like hegemony. Guided by Japan's professed equidistant policy toward Beijing and Moscow, they were reluctant to endorse China's determined campaign against "Soviet hegemonism." The stalemate over this sensitive issue persisted throughout 1976 and 1977, partly because of domestic political conditions in both countries.

Constrained by the ascendancy of pro-Taipei forces in the LDP's leadership positions, Prime Minister Miki Takeo, despite his unmistakable pro-Beijing inclinations, was unable to take a bold diplomatic initiative toward China. The maximum concession that the Miki government was willing to offer to China was either to state the antihegemony principle in the preface of the treaty or to declare Japan's own disavowal of hegemonic pursuit in its main text, but without mention-

ing Japan's opposition to a third country's hegemony. Neither formula was acceptable to China. Miki also confronted the agonizing political dilemma of the Lockheed corruption scandals, which implicated ex-Prime Minister Tanaka and other prominent LDP leaders.

More important, the year 1976 was a traumatic and unstable period on China's domestic political scene and its unsettling effects spilled over into 1977. The successive demise of Premier Zhou Enlai, Marshal Zhu De, and Chairman Mao Zedong was combined with the violent Tiananmen Square demonstrations, the dismissal of Vice Premier Deng Xiaoping, and the devastating Tangshan earthquake. After Mao's death, Premier Hua Guofeng arrested the "Gang of Four" and made himself the Chinese Communist party (CCP) Chairman. Complicated factional compromises were required for Deng Xiaoping's formal political reinstatement in July, 1977. The Japanese Ministry of Foreign Affairs, which paid keen attention to China's succession struggles and top-level diplomatic reshuffles, took a "wait-and-see" approach toward the dormant treaty negotiations.

Once the Hua-Deng coalition was solidified in China, Prime Minister Fukuda Takeo, who had replaced Miki toward the end of 1976, expressed his commitment to resuming serious treaty negotiations with China in 1978.⁵ Although he was often identified as a close friend of Taiwan's, the Prime Minister had several reasons to seize upon the new opportunity to improve Tokyo-Beijing relations. In addition to the pro-Beijing pressure exerted by Japan's mainstream economic circles, he believed that it was in Japan's own long-range interest to support the moderate and pragmatic Hua-Deng leadership and their outwardly oriented four modernizations policy. He also felt that the treaty would bolster his contest with Ohira Masayoshi in the LDP's presidential election; ex-Foreign Minister Ohira was known as a principal architect of Tanaka's China diplomacy. Moreover, United States President Jimmy Carter, who was on the verge of diplomatic normalization with China, stressed the importance of a Tokyo-Beijing accommodation as a counterweight to the Soviet Union in the Asia-Pacific region.⁶

The Japanese accepted a number of substantive and semantic compromises with China, allowing the five-article Treaty of Peace and Friendship to be signed in August, 1978. They made a crucial concession to the adamant Chinese demand that the antihegemony clause should be included in the main text (Article Two). They were successful in diluting its anti-Soviet implications by insisting that the antihegemony principle was not confined to the Asia-Pacific region but was universally applicable, and that the treaty should not affect either party's (namely, Japan's) relations with third countries (for example, the Soviet Union).⁷ The two governments agreed to further economic and cul-

³See the documents in *Shin Chugoku Nenkan* (New China Yearbook) (1976), pp. 152-156.

⁴See Chae-Jin Lee, "The Making of the Sino-Japanese Peace and Friendship Treaty," *Pacific Affairs*, fall, 1979, pp. 420-445.

⁵For example, see his speech delivered at the National Diet, in *Waga Gaikono Kinkyō* (Present Status of Our Diplomacy) (Tokyo: Ministry of Foreign Affairs, 1978), pp. 303-310.

⁶See Zbigniew Brzezinski, *Power and Principle: Memoirs of the National Security Adviser, 1977-1981* (New York: Farrar, Straus, Giroux, 1983), pp. 216-219.

⁷See Lee, "The Making of the Sino-Japanese Peace and Friendship Treaty," p. 444.

tural relations and to promote exchanges between both countries. The treaty was to remain in force for ten years; thereafter, it would continue indefinitely unless either party gave one-year advance notification for its termination.

Prime Minister Fukuda stated that the treaty was a "great contribution not only to the future of the two countries but also to the peace and stability of the Asia-Pacific region and the rest of the world"; the same sentiment was echoed by Premier Hua Guofeng.⁸ In Japan, the treaty was widely acclaimed by all political parties (except for the Japan Communist party) and business organizations, which viewed it as a legally binding framework for the stable expansion of trade and other economic relations with China. The National Diet quickly ratified the treaty by an overwhelming majority, but a few pro-Taipei LDP Dietmen demonstrated their disillusionment with Fukuda's China policy.

When Vice Premier Deng visited Tokyo to exchange the instruments of ratification of the treaty in October, 1978, he stated that "there are many fields in which we can make use of Japanese scientific and technological achievements and even funds."⁹ He added that it was wise for the two governments to set aside the territorial dispute over the Senkaku (or Diaoyu) Islands.

ECONOMIC COOPERATION

The volume of Sino-Japanese trade expanded smoothly in the first half of the 1970's due to a combination of favorable conditions. The diplomatic and political obstacles to normal commercial relations were removed, and the embassies and other government agencies took over the functions that had been performed by the "private" trade liaison offices. The Trade Agreement reduced tariff barriers by one-third on the average. Japan's mainstream business and financial circles led by PlosKeidanren (Federation of Economic Organizations) set up the Japan-China Economic Association to promote large-scale trade transactions with China. The amount of bilateral trade (\$3.8 billion) during 1975 was more than triple that of 1972 (\$1.1 billion). Japan was China's primary trading partner and China became the third largest buyer of Japanese goods. Trade expansion was accompanied by an increasing number of reciprocal visitors with an emphasis on economic discussions, industrial exhibits and technical exchanges. The trade declined by a sharp 20

percent during 1976 mainly because of China's internal uncertainty and confusion, but it quickly recovered its growth during 1977.

Encouraged by the practical open-door economic policy of the post-Mao leadership, the Japan-China Economic Association, in close cooperation with Japanese government agencies, formulated a Long-Term Trade Agreement (1978-1985) with the Chinese Ministry of Foreign Trade in 1978; each side was expected to export about \$10 billion to the other during this period. In the initial five years (1978-1982) Japan planned to sell to China \$7 billion-\$8 billion in industrial technology and complete plants and \$2 billion-\$3 billion in construction machinery and materials; these exports were to be financed by low-interest deferred payment methods provided by the Japanese Export-Import Bank and commercial banks. In the same period, China agreed to supply to Japan increasing amounts of crude oil (47.1 million metric tons), coking coal (5.1-5.3 million metric tons), and steam coal (3.3-3.9 million metric tons).

The principle underlying this agreement was relatively simple; for its rapid industrialization plans, China would import Japan's advanced modern technology in the early part of the eight-year period and would pay Japan back with exports of natural energy resources, especially crude oil. After signing the Treaty of Peace and Friendship, the Japanese were successful in extending the Long-Term Trade Agreement until 1990 and obtaining China's promise to increase the total amount of long-term bilateral trade by two to three times (between \$40 billion and \$60 billion).

The Long-Term Trade Agreement helped Japan enjoy the lion's share (56 percent) of China's accelerated purchases of foreign industrial plants (about \$10 billion) between 1978 and 1981, especially in the areas of petrochemicals and iron and steel; other major exporters of plants to China were West Europe (37 percent) and to a much less extent the United States (6 percent). The Chinese captured a significant portion (15 percent in 1978 and in 1979, 10 percent in 1980 and 7 percent in 1981) of Japan's total plants exports.¹⁰ The sales of Japan's complete industrial plants to China usually included attractive financing terms, extensive technology transfer and special training programs.

The most celebrated case of financial and technological cooperation was Japan's massive involvement in the Baoshan Iron and Steel Complex near Shanghai.¹¹ As a symbol of China's rapid industrialization plans, this multibillion dollar construction project was designed to import the best modern technology available in Japan and other industrialized nations and to produce 6 million tons of high-quality steel per year. Nippon Steel and other major Japanese conglomerates (such as Mitsubishi, Mitsui, Sumitomo, Hitachi, and Kobe Steel) signed the \$3 billion contracts for the

⁸See *Beijing Review*, August 18, 1978, pp. 6-7.

⁹See *Beijing Review*, November 3, 1978, pp. 14-17.

¹⁰See *Nitchu Keizai Koryu* (Japan-China Economic Interchange) (Tokyo: Japan-China Economic Association, 1982), pp. 300-327.

¹¹See Martin Weil, "The Baoshan Steel Mill," in United States Congress, Joint Economic Committee, *China under the Four Modernizations* (Washington, D.C.: United States Government Printing Office, 1982), Part 1, pp. 365-393.

Baoshan Complex, which included the construction of a transportation system, thermal power plants, quay-wall structure, a transshipment port and a hot strip mill. The construction of a cold rolling mill (\$600 million) was assigned to a 16-company international consortium headed by West Germany's Schloemann-Siemag Corporation. Nippon Steel also assumed a wide range of planning, technical and managerial responsibilities.

Although the Japanese were excited about the potential economic benefits from Baoshan, they were soon disappointed by China's failure to generate adequate internal and foreign funds for many ambitious industrial construction projects. In late 1980 the Chinese, under the guidelines of a stringent economic readjustment policy, decided to limit the Baoshan Complex to its first-phase construction (a production capacity of 3 million tons of steel a year), to postpone its second-phase construction indefinitely, and to cancel some of the Baoshan contracts. The Japanese were notified of the unilateral abrogation of their contracts not only at Baoshan (almost \$1 billion), but also in China's petrochemical projects at Daqing, Nanjing, Shengli, and Yansan. Schloemann-Siemag was also a victim of China's contract nullification.

A principal reason for the drastic Chinese decision was China's inability to produce and export as much crude oil as it had originally projected in the mid-1970's. In fact, its oil output declined in 1980 and 1981 and its oil exports to Japan fell far short of the targets set in the Long-Term Trade Agreement. The loss of anticipated foreign currency earnings was indeed substantial. The growing deficits in the government budget reduced China's domestic financial sources for basic construction projects. Under Deng Xiaoping's political guidance, China's economic czar, Chen Yun, launched a vigorous criticism against Premier Hua Guofeng's high-growth economic policy and adopted a retrenchment scheme to curb the government's deficit spending that emphasized light and consumer industries rather than heavy industries like steel mills.

Sensing a crisis in Sino-Japanese economic relations, the Japanese government effectively intervened to rescue two major projects—Baoshan and Daqing. It worked out a 300-billion-yen financing package for China—¥130 billion in government commodity loans, ¥100 billion in suppliers' credits underwritten by the Export-Import Bank and ¥70 billion in syndicated commercial loans. Consequently, in late 1981 the Chinese State Council decided to revitalize Baoshan's first-phase construction plan with 1985 as the new date for its completion. The Chinese also settled the nagging problems of financial compensation for those Japanese companies whose contracts were cancelled. The

credibility of China's international business practices dwindled in the eyes of the Japanese public, but Japan's government and business communities made concerted efforts to restore the spirit of trustworthy economic relations with China.

COAL AND OIL DEVELOPMENT

Unlike their mixed experience at Baoshan, the Japanese made steady and satisfactory progress in their collaboration for coal and oil development in China during the early 1980's. Since the Japanese hoped to increase their imports of Chinese coal to ten million tons a year by 1985, they were deeply involved in the development of twelve Chinese collieries in Shanxi, Shandong, Anhui, and Hebei Provinces and the Inner Mongolian Autonomous Region; eight with Export-Import Bank loans, two in joint ventures, and two in compensation trade. They also offered technical assistance on the expansion of China's coal industry and its infrastructure (roads, railroads and ports) and set up various consultative bodies with their Chinese counterparts. There was a sense of competition with the United States, West Germany, France, England and Poland in tapping China's abundant coal reserves, estimated at 600 billion tons.

In an attempt to diversify the sources of vital oil supplies, the Japanese aggressively pursued China's oil resources. In particular, the Japan National Corporation, a public corporation under the Ministry of International Trade and Industry, achieved a major breakthrough in resource diplomacy with China; in 1980 it concluded a contract with China to explore jointly and develop the southern and western sections (25,524 square kilometers) of the Bohai Sea.¹² (The northern section was apportioned to a French company.) This was the first joint venture agreement China signed with a foreign country in its offshore oil development projects.

As in Indonesia and the Soviet Union, the Japan National Oil Corporation put together a consortium of Japanese private industries to take part in the Bohai projects. The Japanese side assumed the entire cost for geophysical prospecting and other exploration activities and 49 percent of the development cost; in return, Japan was to obtain 42.5 percent of the aggregate oil output during the 15-year production period. The Chinese agreed to have an equal 42.5 percent share of the oil output, and the remaining 15 percent was set aside to pay the production cost.

The Japanese were expected to spend much more than \$1 billion in the Bohai Sea projects and the Japanese Export-Import Bank agreed to finance China's \$520-million share of development costs. The Japanese and the Chinese were immensely pleased with several test wells and appraisal wells drilled in the Bohai Sea during 1981, 1982 and 1983; their joint efforts confirmed substantial recoverable deposits of both

¹²See Chae-Jin Lee, *China and Japan: New Economic Diplomacy* (Stanford: Hoover Institution Press, forthcoming).

high-quality, light-weight crude oil and natural gas.

There is a distinct possibility that Japan will be a major beneficiary of the Bohai projects in the late 1980's. The achievements of Sino-Japanese economic cooperation at Bohai overcame some temporary setbacks suffered at Baoshan. The Japanese oil executives, who had an inferiority complex in oil development technology vis-à-vis their more experienced American and European competitors, regarded the Bohai success as demonstrable evidence of their advanced international status. And they did not think of their Bohai collaboration as an isolated adventure, but rather hoped that this experiment would be extended to other oil development projects elsewhere on China's vast and resourceful continental shelf—the Yellow Sea, the South China Sea, the Pearl River estuary and the Gulf of Beibu (Tonkin). In fact, the Japan National Oil Corporation led Japan's private oil industries in their search for China's offshore as well as onshore energy resources. The Japanese companies also exported a growing amount of oil-related machinery and equipment (drilling rigs, supply boats, production platforms, pipelines and survey equipment) to China.

The volume of Japanese trade with China rose significantly in the late 1970's and it registered a postwar peak of \$10.4 billion in 1981. For the first time since 1964 the Chinese saw a surplus (\$200 million) in their trade with Japan. While Japan remained China's primary trade partner by conducting about one-fourth of China's total foreign trade, China was Japan's fifth-largest trade partner (after the United States, Saudi Arabia, Indonesia and Australia) with a 3.5 percent share of Japan's total foreign trade. In 1982, however, the trade figure declined to \$8.9 billion, reflecting China's drastic readjustment measures and Japan's weak international economic performance. The Japanese again experienced a \$1.8-billion deficit in their China trade, but they still enjoyed a large \$2.8-billion surplus in their 11 years of commercial transactions with China.

The major Japanese exports to China were machinery and equipment (48 percent in 1981 and 30 percent in 1982), steel (24 percent in 1981 and 37 percent in 1982) and chemicals (11 percent in 1981 and 15 percent in 1982). China's principal exports to Japan consisted of mineral energy resources (56 percent in 1981 and 58 percent in 1982), textiles (13 percent in 1981 and 14 percent in 1982) and foodstuffs (10 percent in 1981 and 9 percent in 1982). Crude oil from the Daqing oilfield was China's leading export item to Japan, but its future expansion contained some uncertain elements. While China's oil production growth tapered off, Japan adopted a variety of effective energy conservation measures. Moreover, Daqing oil's heavy

weight and high waxiness proved to be expensive to Japanese refineries. And the Japanese oil importers were not always happy with what they regarded as China's inflated oil prices and transportation difficulties.

Although the increasing complexity of Sino-Japanese economic relations involved a number of gnawing trade disputes (like China's textile and silk exports and Japan's sales of highly sophisticated computers), the Japanese government applied the Generalized System of Preferences to its China trade in 1980, giving a specified group of China's agricultural, marine, mineral and industrial exports preferential tariff reductions within certain quota ceilings in Japan.¹³ This generous decision was made on top of the most-favored-nation status previously granted under the Trade Agreement.

Japan was the first non-Communist country to give public economic aid to China, providing low-interest long-term government loans for China's basic construction projects. In 1979 the Chinese leaders transcended their Maoist economic biases and requested \$3.6 billion in yen-denominated government loans for their eight top-priority construction projects; the Japanese government under Prime Minister Ohira Masayoshi agreed to offer \$1.5 billion in government loans for six Chinese projects over five years. For this decision Ohira not only brought about a compromise among conflicting bureaucratic interests in his Cabinet, but also overcame the opposition or reservations expressed by the Soviet Union and some member states of the Association of Southeast Asian Nations (ASEAN) and the Organization for Economic Cooperation and Development (OECD).

After intense discussions and negotiations, the Overseas Economic Cooperation Fund (OECF) of Japan signed the loan agreements with China for all six projects in April, 1980; for fiscal year 1979, 50 billion yen were appropriated for China. This was less than the largest Japanese government loan of 55 billion yen to Indonesia, but it consumed about 10 percent of Japan's total annual loan commitments. The terms for Japanese loans to China were: (1) the repayment period will be 20 years after a grace period of ten years, and (2) the rate of interest will be three percent per annum.

The six projects were two ports (Qinhuangdao in
(Continued on page 391)

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¹³See Richard K. Nanto, "Sino-Japanese Economic Relations," in *China Under the Four Modernizations*, Part 2, pp. 109-126.

"Japan is increasingly aware of how much it has in common with its European partners. Relations not only take the old direct bilateral routes with Germany, Britain and France, but they are also increasingly channeled through the European Community organization when it is able to get authority to act."

Japan and West Europe

BY FRANK LANGDON

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JAPAN's impact on the global economy is second only to that of the United States. This has brought Japan sharp trade friction with its trading partners during the current world recession because of Japan's extraordinary productivity and competitiveness. Nowhere is this truer than in the tenation European Community (EC), which is the world's largest trading bloc.¹ Japan is having great difficulty resolving its problems with the Community as well as with the EC's chief member countries, like France and Britain, as it attempts to play a larger and more positive role in the world.

Although Japan still avoids an assertive defense policy and clings to a modest role under its Mutual Security Treaty with the United States, it is beginning to collaborate with the European Community and the chief West European states to devise cooperative policies in order to deal with the United States and the Soviet Union. Those policies involve the Middle East, which is vital to the economic security of both Japan and West Europe. Both are also directly threatened by the intermediate-range nuclear weapons and conventional military forces of the Soviet Union.

The chief problem between Japan and its European partners has been Japan's very successful penetration of the European market. Europe is suffering from a serious depression with high unemployment, particularly in the "sensitive" sectors of automobiles, motorcycles, color televisions, machine tools and video cassette recorders (VCR's). The Europeans have been frustrated in their attempts to penetrate the Japanese market to redress the adverse trade balance. They have come to rely on Japanese voluntary self-restraints

(VSR's) to cut back temporarily on sensitive exports to Europe.

The Community has had a difficult time devising a common policy toward Japan. In the late 1960's and early 1970's, continual attempts to negotiate a Community-wide trade agreement failed chiefly because the EC Council of Ministers insisted on a safety clause that would permit the unilateral cutoff of imports of a Japanese product if it were considered to be injuring a European industry. Japan will not accept anything that goes beyond the safety clause (SC) of the General Agreement on Tariffs and Trade (GATT), which permits the exclusion of a damaging import only if the exclusion or limitation is applied to all exporting countries and does not discriminate against any particular country. Japan has been struggling against discriminatory exclusion, which still continues under the bilateral trade agreements it has signed with separate European countries since World War II. Thus, Italy limits Japan to a small quota of 2,000 automobile exports per annum, a discriminatory treatment contrary to GATT but permitted under the earlier bilateral trade agreement. A Community-wide trade agreement would wipe out these restrictions.

An even more limited, but common, trade policy toward Japan has been difficult to achieve because of the differing philosophies of the Community member states. Germany, the Netherlands and Denmark are opposed to most trade restrictions, whereas France and Italy prefer a more "organized" or "managed" trade that is more restrictive or protectionist. While professing freer trade as government policy, private industry or industrial associations have made agreements, like the annual arrangements between the Society of Motor Manufacturers and Trades in the United Kingdom and the Japanese Automobile Manufacturer's Association to keep Japanese automobile exports to about 11 percent of the British market.² Belgium and Ireland, with relatively fewer industries that are harmed by Japanese competition, do not restrict them so often. On the contrary, they are anxious to promote Japanese investment and production in their countries. The resulting Community-produced

¹The Community is formally the European Communities (EC), which consist of the European Economic Community (EEC), the European Coal and Steel Community (ECSC) and the European Atomic Energy Community (Euratom). The ten member countries are France, Britain, Germany, Italy, the Netherlands, Belgium, Luxembourg, Denmark, Ireland and Greece.

²Frank Langdon, "Japan Versus the European Community: The Automobile Crisis," *Revue d'intégration européenne* (*Journal of European Integration*), vol. 5, no. 1, (1981), pp. 79-98.

Japanese products can enter other member countries freely; France has denounced those host countries as "yellow submarines."³

Severely depressed economic conditions since 1980 have produced massive unemployment in such basic industries as steel and automobiles in Europe and the United States. In Japan, however, high savings, high investment and rapid restructuring of industry have resulted in high productivity and low inflation; Japanese products have thus become extremely competitive in foreign trade while European products are less so. In addition, high interest rates in the United States have driven up the value of the dollar with a consequent fall in the value of the yen; this has made Japanese exports even cheaper and more competitive.

The Community has devised a common strategy to reduce surplus steel capacity and upgrade the remaining steel industry. But the closing of obsolete plants throws more people out of work, which is strongly resisted by the affected companies and host country. Italy has defied the orders of the Commission, the executive arm of the Community, to shut down some factories in severely depressed areas and has actually increased steel production, somewhat to the disadvantage of the other member countries that have reduced capacity.⁴

Competitive Japanese exports that benefit those who buy them because of better price or quality arouse considerable animosity among the competing industries that may lose out, especially if the Japanese exports pour in suddenly. Japan's history as a sharp trading country and wartime enemy as well as its cultural and geographical distance from Europe may also earn Japan more than its proper share of ill will. What is remarkable is that the pressure for restrictions against Japanese products has not been more severe, or that the still relatively liberal global trading system has not deteriorated into stiff trade barriers and tariffs as it did in the 1930's.

VOLUNTARY SELF-RESTRAINTS

Japan has managed to contain the protectionist pressure from private industrial or government agreements to adopt voluntary self-restraints (VSR's) on its exports. In 1980–1981, the EC Commission tried to persuade the EC Council of Ministers to negotiate with Japan to adopt such restraints toward the Community in sensitive sectors like automobiles, color television sets and machine tools, in return for abolishing the various quotas and restrictions maintained separately by the member countries against Japan.

³Albrecht Rothacher, *Economic Diplomacy Between the European Community and Japan, 1959–1981* (Brookfield, Vt.: Gower Publishing, 1983) p. 287.

⁴For the institutional and foreign policymaking structure of the Community see chapter 2 of Rothacher, *op. cit.*

⁵"Vice-Presidents Haferkamp and Davignon in Japan: A 'Turning Point,'" *EC Flash*, 83/3 (February 14, 1983).

Automobiles became a crisis sector in June, 1981, when the Japanese agreed to limit their export of cars to the United States for three years. Fearing a diversion of Japanese automobiles to West Europe, the industry brought great pressure on its national governments and on the Community to obtain similar concessions from Japan. Germany had no restrictions, but Italy was still enforcing its small quota of 2,000 cars annually. French officials warned Japan not to take more than 3 percent of its domestic market. France had already lost much of its overseas market to Japan so it resorted to slowing documentation or failing to approve applications to import new Japanese car models. Britain's private arrangement with Japanese automakers held down exports there. Japan finally agreed to moderate car exports to those markets that were still open. It cut back on exports to Belgium, where it had captured 30 percent of the market. Despite moderation toward Germany, its market share doubled in 1981 over 1980.

The Commission was unable to obtain a Community-wide agreement. In the Council of Ministers some members, like France and Italy, were unwilling to give up their own restrictions against Japanese automobiles in favor of a common Community policy. Thus, a combination of national restrictions by European states plus Japanese voluntary self-restraints reduced the friction over automobiles. Nevertheless, Italy took steps contrary to Community rules to impede the sale of Japanese cars produced in Britain by Honda and BL Limited in 1982.

Although the opposition to Japanese auto exports moderated as exports slackened, anti-Japanese protectionist pressures continued in Europe in 1982 and 1983, particularly in France. The plans of the new socialist regime had not been successful and the franc plunged in value. On October 22, 1982, French officials required that all imported video cassette recorders go to the small island customs post at Poitiers. The popular new electronic product that had captured 80 percent of the European market piled up there. France's stiff unilateral response to the torrent of VCR's attracted world attention. On December 1 the two weak European contenders, Grundig and Philips, filed antidumping charges against the Japanese recorders.

A solution was achieved in February, 1983, when Commission vice presidents Wilhelm Haferkamp and Etienne Viscount Davignon visited Tokyo. They negotiated an agreement, subsequently ratified by the Council of Ministers, that seemed to be the long sought breakthrough: Japan would voluntarily restrain sensitive exports on a Community-wide basis. Japan said it would moderate exports of cars, forklift trucks, hi-fi equipment, light commercial vehicles, machine tools, motorcycles, quartz watches, television sets, television tubes and video cassette recorders.⁵ The European

VCR makers needed to produce at least 1.2 million units to attain economically efficient production, so a ceiling on Japanese imports was set at 4.55 million units, including 600,000 chassis kits for European assembly. The pricing formula provided that both European and Japanese VCR's would start with the same prices and compete on quality and after-sales service. Japan put its voluntary restraint into effect in March, 1983, but it was only on April 28 that France relaxed its Poitiers slowdown, much to the annoyance of the Commission, which wished to claim credit for the agreement.⁶

The European producers withdrew their antidumping complaint, but the French Minister of External Trade, Edith Cresson, said France was prepared to take the same measures again and claimed credit for bringing Japan to the bargaining table, a point virtually admitted by Kuniaki Asomura, the minister of the Japanese delegation to the Community in Brussels. Britain's Secretary of Trade, Lord Cockburn, said of the restraint agreement: "It's not a protectionist device at all but a signal to the Japanese that unless they open up their domestic market we will be forced to restrict imports of their products." But Germany's Economics Minister, Otto Baron Lambsdorf, said "For the most part it is designed to protect European industries from normal Japanese competition which in our view is dangerous."⁷

Neither the Commission nor the governments of the countries in the Community have been successful in gaining entry to the Japanese domestic market. Japan's bureaucrats and professional diplomats have been willing to compel private industry to moderate their exports, but they have been less willing to dismantle their own controls and regulations hampering the entry of foreign products. The more overt protectionist quotas and controls on trade and investment were largely removed or liberalized by the early 1970's, making Japan no more restrictive than the other major

developed countries. Remaining quotas are retained on agricultural products, which are not exported by Europe.

Nevertheless, the Community complains that the products that cannot compete with Japan's have low tariffs whereas those that would sell very well in Japan (Scotch whiskey or French cognac, for example) are hampered by high tariffs and high excise taxes.⁸ Particularly irksome have been the various standards and health regulations that have delayed the export of pharmaceuticals or made European cars prohibitively expensive.

Especially notable has been the Commission's argument that Japan does not import as large a proportion of manufactured goods as do other advanced countries. It is true that European manufactured exports have not grown much, or have actually declined, but that is because they have tended to be less competitive on the world market. On the other hand, Japan has increased manufactured imports from the newly industrializing countries (NIC's) like South Korea, Taiwan, Hong Kong, and Singapore because they are cheaper and competitive with similar Japanese products.

Another Community complaint is that Japan's economic organization greatly impedes foreign penetration. For example, the major Japanese industrial groups are thought to make it difficult for foreign firms to share in the Japanese market. They include groups like Mitsui, Mitsubishi, Sumitomo, Fuyo, Dai-ichi Kangyo Ginko, and Sanwa, whose company presidents meet regularly to discuss common interests. Japanese academic economists who have researched the matter for the Japanese government deny that the groups monopolize the Japanese marketplace to the exclusion of foreign firms.⁹ But it is difficult to buy a controlling interest in a Japanese firm without its co-operation and there are restrictions on entry into banking and insurance. Legal practice by foreigners is forbidden in Japanese courts. The Japanese distribution system is notoriously difficult. Also, it must be admitted that the effort by Japanese companies to enter the European marketplace greatly outshines any European business effort in Japan.¹⁰

The difficulties of European businessmen trying to sell in the Japanese market and the great success of Japan in the European market have created a large and constantly increasing European trade deficit: \$500 million in 1970, \$3.4 billion in 1975 and \$12.5 billion in 1981.¹¹ According to Japanese figures (which are somewhat less than those of the Community because they are compiled differently), in the first half of 1983 the deficit was \$5 billion as opposed to \$4.7 billion in the first half of 1982.¹² During the first five months of 1983 the deficit rose by 8.5 percent over the same period the year before.

The Community does not object to a trade deficit

⁶"EEC/Japan: Poitiers Restrictions on French Imports of VCRs Lifted," *European Report*, External Relations, no. 948 (April 29, 1983), p. 5.

⁷Craig Anderson, "EC Accord: 'Only One Step in a Long Road,'" *International Herald Tribune*, March 21, 1983, p. 7S.

⁸"Nichi-Bei-O Sankyoku Boeki Kankei no Ronten (Points in Dispute in Tri-Polar Japanese-American-European Trade Relations)," *EC Background Note*, June, 1983, p. 6.

⁹Tomio Inoguchi, "Kigyō Shudan (Enterprise Groups)," in Gaimusho, Keizai Kyoku (Foreign Ministry, Economic Bureau), *Nihon Sangyo no Seido-teki Tokusho to Boeki Masatsu* (The Systemic Character of Japanese Industry and Trade Friction [with the EC]), Keiso (83), March, 1983, pp. 11-40.

¹⁰Endymion Wilkinson, *Misunderstanding: Europe Versus Japan* (Tokyo: Chuo Koron Sha, 1981), pp. 229-230.

¹¹"EEC/Japan: Japanese Letter of Protest Regarding Continuation of GATT Complaint," *European Report*, External Relations, no. 945 (April 20, 1983), pp. 3-6.

¹²"Japanese Trade Performance in June Confirms Surplus Increase—EEC Sales to Japan Picking Up?" *Europe*, no. 3650 (New Series), July 14, 1983.

per se since it has a much larger one with the United States, but the huge deficit with Japan is considered a reflection of Japan's excessive barriers to Community exports and investment; it also reflects the torrent of Japanese exports in the sensitive sectors of the Community market. For example, in the first four months of 1983 Japanese car exports jumped 22 percent over the same period of 1982 and forklift truck exports increased by 43 percent.¹³

The Community's frustration over trade relations with Japan resulted in the decision to resort to the dispute procedure under GATT, which would allow West Europe to retaliate against Japan. On April 8, 1982, the Commission asked Japan for consultations under Article XXIII, Paragraph 1, of the General Agreement on Tariffs and Trade. The Community contended that the increasing trade imbalance with Japan and the low level of Japanese manufactured imports nullified and impaired the benefits afforded to the EC under GATT. That is to say, Japan's trade was unfair; it enabled Japan to enjoy a lucrative trade with Europe while denying the same benefits to the Community.

After two rounds of discussion in May and July, 1982, between the Community and Japan, the Commission requested a working party of GATT members to the GATT Council meeting of April 20, 1983. The Japanese were shocked at the Community decision to go ahead with the dispute procedure because they thought the landmark February, 1983, restraint agreement had prevented a confrontation.

The EC requested that Japan develop "a series of general and coordinated specific measures designed to bring about a definitive and substantial improvement in the present situation." Japan protested to GATT that the EC complaint was too general and did not show direct causal links between Japanese actions and the alleged denial of benefits. Even the Chilean GATT representative asked for a clarification of the problem beyond the general points presented. The GATT Council postponed a decision to allow the EC and Japan to consider the dispute further.

One of the difficulties of complying with the European demands is that Japanese firms cannot be compelled by their government to buy from Europe if they can obtain a cheaper or more suitable product in Japan or elsewhere, which is apt to be the case. Even if all Japan's objectionable inspections, health rules and financial restrictions were removed, it is very likely that the impact on EC-Japanese trade would not be very great. The chief reason for the huge trade deficit is that Japanese exports are cheaper or superior. European exports in too many cases are too expensive or less desirable.

¹³"22nd Japan-EC High Level Consultations," *EC Flash*, 83/8 (July 5, 1983), EC Delegation Tokyo, Press and Information Service.

Nevertheless, the Japanese government has orchestrated a series of market opening initiatives with much fanfare in an attempt to mollify the Europeans and other critics. For example in March, 1983, the Japanese government announced it would amend 17 laws to ease standards and certification procedures for imports, something that was welcomed by the Commission. But these have neither halted nor reduced the growing trade deficit.

A dramatic change, like the removal of taxes, duties, or standards, might have some symbolic value in the dispute with the Community and the similar dispute Japan has with the United States and other trading partners, but it would probably not change the trade pattern very much in the short run. The only way the trade pattern can be altered is to reduce Japanese imports or upgrade European products to where they can compete with Japan in Europe itself and eventually in Japan. The latter will be a difficult and lengthy enterprise. Moreover, it is not only difficult for Japan to open its market further—it is useless if any significant change is expected.

If Japan were to go beyond all the other developed countries in its removal of trade restrictions, it would be a great tribute to its professed adherence to the philosophy of free trade. It would indeed be dramatic, but it would be politically destabilizing, especially in the heavily protected agricultural sectors. Still, it would not be likely to change Japan's trading pattern with the Western European countries. Japan appears to be dancing to the tune called by the major European powers or their representatives in the EC, but it is really the United States that calls the tune because it is the biggest market for Japan and protects it from the pressures of the Soviet Union and the People's Republic of China.

SECURITY QUESTIONS

Japan has increasingly seen advantages in cooperating with Europe when their global security interests coincide. Under Prime Minister Masayoshi Ohira and Foreign Minister Saburo Okita, Japan took steps to cooperate in sanctions against the U.S.S.R. for its invasion of Afghanistan and against Iran for seizing American diplomatic hostages. In 1982, Japan supported Western objections to the Soviet pressure on Poland, then under the martial law régime. But, at the same time, Japan was the object (along with the Europeans) of economic pressure from the United States to prevent American-derived equipment and technol-

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Frank Langdon is the author of *Japan's Foreign Policy* (Vancouver: University of British Columbia Press, 1973) and *The Politics of Canada-Japan Economic Relations, 1952-1982* (Vancouver: University of British Columbia Press, forthcoming).

"Nakasone has continued to behave like a Jekyll and Hyde. From time to time he has asserted his ideological convictions and priorities. In the face of predictable outbursts from his critics . . . he has readily retreated and modified, reinterpreted or simply discarded his controversial statements."

Japan's Nakasone Government

BY HARUHIRO FUKUI

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YASUHIRO Nakasone's election as Prime Minister on November 26, 1982, was a rather belated triumph for the 64-year-old politician. First elected to the House of Representatives in 1947, he had been consistently reelected in the 13 general elections held in the intervening years. Moreover, he served in 1959–1960 as director general of the Science and Technology Agency in Prime Minister Nobusuke Kishi's Cabinet and since the late 1960's he had filled several other Cabinet posts and key party offices. Since 1966 he had also led an intraparty faction of his own.

Nakasone's curriculum vitae looked every bit as impressive as those of his three immediate predecessors, namely, Kakuei Tanaka, Masayoshi Ohira and Zenko Suzuki. On the basis of the vita alone, it would not have been surprising if he, rather than Tanaka, had become LDP leader and Prime Minister in 1972. Why it took him so long to "arrive" is an interesting question that has important implications for his performance as the new LDP president and as Japan's Prime Minister.

There are two interrelated reasons for his delay in coming to power. The first is Nakasone's ideological commitments and political style.¹ On the one hand, he has often behaved like a nationalist ideologue, determined to overthrow Japan's "occupation-imposed" postwar political regime, symbolized by the 1947 con-

stitution; he also wants to rearm the country against potential (presumably Soviet) aggression. Hence his reputation as a "young officer" and a "samurai in a scarlet-threaded suit of armor" in his early years in the Diet. On the other hand, he has frequently shifted his position on controversial issues and has readily changed his political partners, developing a reputation as a political "weather vane." As a result, he has often looked unpredictable, unreliable and somewhat sinister. It is most likely that he is in fact a Dr. Jekyll and Mr. Hyde, a nationalist ideologue and a political opportunist, and for good reasons.²

Nakasone resembles those LDP politicians who had belonged to the Democratic party (called Progressives or Reformists at different times) before that party merged with the Liberal party in 1955 to form the LDP. They have been committed, more or less openly, to an overhaul, if not the overthrow, of the "occupation-imposed" postwar regime.

The postwar regime was partly the result of a historical accident. The Liberals, led by Prime Minister Shigeru Yoshida, were in power and helped the Americans install a series of "democratic" reforms, including the "MacArthur Constitution," during the Allied occupation of Japan after World War II.³ The Democrats were out of power and had little to do with planning and implementing the reforms. Moreover, the purge program initiated in the spring of 1946 hit the Democrats (then called the Progressives) much harder than the Liberals or any other political party at the time. Most Liberals who were purged were older politicians associated with the prewar conservative party, the Seiyukai, and particularly with one of the Seiyukai stalwarts, Ichiro Hatoyama, rather than with Yoshida, who joined the Liberal party only in the spring of 1946.⁴

The experiences of the occupation period, both personal and collective, made many Democrats and Hatoyama-faction Liberals opponents or critics, and most Yoshida-group Liberals supporters, of the occupation era reforms and the political regime erected on the basis of those reforms. Of the LDP Prime Ministers who have formed and led the succession of conser-

¹For a concise but comprehensive account of Nakasone's political beliefs, policies and past behavior, see Hirota Maruyama, "Sengo Sokessan to wa Nani ka," *Seikai*, March, 1983, pp. 122–130. See also Gendai Seiji and Mondai Kenkyukai, eds., *Jiminto: Akumei Retsuden* (Tokyo: Gendai Hyoronsha, 1979), pp. 141–150.

²For examples of Nakasone's shifts of position and his own explanations of the circumstances, see Yasuhiro Nakasone, "Daiseijika wa Minna Kazamidori da," *Bungei Shunju*, January, 1983, pp. 136–140.

³For details see Eiji Tominomori, *Sengo Hoshuto Shi* (Tokyo: Nihon Hyoronsha, 1977), Chapters 1 and 2; J.A.A. Stockwin, *Japan: Divided Politics in a Growth Economy*, 2nd ed. (London: Weidenfeld and Nicolson, 1982), pp. 58–66.

⁴See Takashi Ito, "Sengo Seito no Keisei Katei," in Takafusa Nakamura, ed., *Senryoki Nihon no Keizai to Seiji* (Tokyo: Tokyo Daigaku Shuppankai, 1979), pp. 96, 99; Haruhiro Fukui, *Party in Power: The Japanese Liberal-Democrats and Policy-making* (Berkeley: University of California Press, 1970), p. 38.

vative Cabinets since 1955, Hatoyama, Kishi and Takeo Fukuda came from the ranks of the opposition group; Tanzan Ishibashi, Hayato Ikeda, Eisaku Sato, Tanaka, Ohira and Suzuki came from the Yoshida group, and Takeo Miki belonged to the minor Japan Cooperative party during the critical occupation period. The Yoshida-line liberals have thus dominated the LDP leadership at the expense of the one-time Democrats and Hatoyama's followers, at least partly because antirevisionism has been the more popular and politically acceptable position in post-occupation Japan.⁵

The differences between the two schools of LDP politicians can be easily exaggerated. The Yoshida-line Liberals are not antinationalist by any means. On the contrary, the majority, including the most prominent and influential among them, are as fervently nationalistic as any in the other group. By the same token, the majority of those identified with the Democrat-Hatoyama faction are neither anti-American nor anti-internationalist. Nonetheless, there are some real and significant differences not only in their views of the "occupation-sponsored" postwar reforms but, more important, in their policy priorities.

Yoshida-line Liberals tend to focus on economic issues; to them, economic stability and prosperity are the most important, if not the sole, objectives of good government. As long as the "democratic" institutions and practices introduced by the Americans during the occupation help achieve rapid economic growth and stability, they should be maintained and utilized. Hatoyama-line Liberals and, especially, Democrats, tend to emphasize ideological issues; to them, true salvation for the Japanese cannot be found in purely material affluence or stability but must be sought in a spiritual national awakening.⁶

Nakasone is a postwar politician who, as noted, won a seat in the House of Representatives for the first time in the 1947 general election. He did so as a Democrat, no doubt because he found either the leadership or the program more attractive than Yoshida's leadership. He is the fourth Democrat who has managed to rise to the top of the LDP hierarchy. However, his view of the postwar reforms and the need to overhaul the existing constitutional system has never been very popular with the majority of the nation's electorate.⁷

⁵For a somewhat different classification of the groupings, see Toshiaki Adachi, "Habatsu no Kozai: Semegu Hoshu Honryu to Boryu," *Gekkan: Jiyu Minshu*, May, 1983, pp. 144-147.

⁶On the ideological orientations and policy priorities of the two groups, see Yasushi Yamaguchi, "Nakasone Seiken no Ichi to Honshitsu," *Sekai*, March, 1983, pp. 39-41.

⁷For the results of a recent public opinion poll, see *Asahi Shimbun*, January 3, 1981. For pertinent comments, see Stockwin, *op. cit.*, pp. 214-218.

⁸For the circumstances of the split, see Fukui, *op. cit.*, p. 111.

For his political survival and electoral success, Nakasone has had to moderate and sometimes conceal his deeper ideological convictions and commitments. The three earlier Democrat-line Prime Ministers had to do likewise. But Nakasone has had to go further in moderating or hiding his revisionist views because his political position has been more vulnerable.

Despite his impressive political experience, Nakasone has never succeeded in building a large and solid following within the LDP. Until the mid-1960's, he belonged to a major LDP faction led by Ichiro Kono. Following Kono's death in 1965, when the faction split into two rival groups, the larger one with about 20 LDP members of the House of Representatives followed Nakasone.⁸ Over the years Nakasone has managed to build his group into a respectable factional following of about 50 Diet members, including six members of the House of Councillors. However, when compared to the LDP parliamentary factions led by Tanaka (107 members at the end of 1981), Suzuki (84 members) and Fukuda (78 members), Nakasone's faction is modest. That is probably why he was not Prime Minister sooner; it remains a fact that he can neither ignore nor forget.

Nakasone won the 1982 LDP party election thanks to the support of the Suzuki and, especially, the Tanaka factions. Not surprisingly, that support did not come free but at a very steep price. Of the twenty members of the new Cabinet (excluding the Prime Minister), six, including the chief Cabinet Secretary, came from the Tanaka faction and four from the Suzuki faction, while Nakasone's own faction took only two posts; the remaining eight were distributed among the three "antimainstream" factions and those not affiliated with an intraparty faction. Furthermore, the three key party posts—the secretary general, the chairman of the executive council and the chairman of the policy affairs research council—went, respectively, to the Tanaka, Fukuda and Suzuki factions. It was extraordinary for a new LDP leader and Prime Minister to concede so much to his potential rivals and opponents at the expense of the faithful members of his own faction.

The Nakasone Cabinet is essentially an interfaction coalition dominated by Tanaka, Suzuki and their followers, but subject to the pressure of the antimainstream factions. Understandably, Nakasone has continued to behave like a Jekyll and Hyde. From time to time he has asserted his ideological convictions and priorities. In the face of predictable outbursts from his critics, both within and outside his own party, however, he has readily retreated and modified, reinterpreted or simply discarded his controversial statements. Generally, he has been careful to avoid pushing his revisionist convictions or priorities against known political odds; he does not want to antagonize too many anti-revisionists and thereby risk a premature forced re-

irement.⁹ As a result, he has appeared more like a nationalist visionary, if not a weather vane, than an ideologue.

POLICIES AND PERFORMANCE

In his first policy speech before the House of Representatives on January 24, 1983, Nakasone suggested that Japan was at a critical crossroads in its postwar history and that in an era of rapid and profound change one ought to disregard conventional taboos and be willing to review without preconceptions even the most fundamental institutions and arrangements of the society. He has since made statements and taken actions apparently designed to initiate, or at least facilitate, such a review. He has done so with little regard for either precedent or the opinion of experts in the government bureaucracy; as a result, he managed within a few months of his inauguration to alienate many a senior bureaucrat in the key ministries.¹⁰ Nonetheless, he has been careful not to push his more controversial policies or plans too far.

Both in his January speech and in one made earlier in December, Nakasone emphasized several specific policies aimed mainly at administrative reform, rehabilitation of government finances, improvement of self-defense capabilities, consolidation of the United States-Japanese alliance and, interestingly, improvement in relations with the Soviet Union and North Korea. All these policies and most of those mentioned on other occasions either by Nakasone himself or by other members of his Cabinet have been inherited from preceding administrations. This is true especially for the plan to reform the government administration, which was extensively debated by the Suzuki Cabinet.

Nakasone was director general of the Administrative Management Agency in the Suzuki Cabinet and was therefore officially responsible for the development of the plan. Moreover, he deliberately sought personal involvement with the issue, presumably hoping such involvement would help him shed the image of a "political weather vane" and earn him the friend-

ship of influential reform-minded businessmen, like Toshio Doko, the former Federation of Economic Organizations (Keidanren) president and current chairman of the ad hoc Administrative Reform Commission appointed by Suzuki in November, 1980.¹¹ It was hardly surprising that Nakasone should now promise to "respect" the commission's recommendations and "have them speedily implemented."¹²

In an exchange of questions and answers with an opposition member in the House of Councillors in January, Nakasone revealed his intention to seek the reform of the three public corporations, namely, the Japanese National Railways (JNR), the Nippon Telegraph and Telephone Public Corporation (NTT) and the Japan Tobacco and Salt Public Corporation. Subsequently, the government did introduce in the Diet several relevant bills, including one designed to reorganize the JNR and another to establish a new commission to carry out administrative reforms. On the other hand, legislative action relating to the reform or reorganization of NTT and the Tobacco and Salt Corporation has been postponed indefinitely.

During the 1982 fiscal year, the national administrative bureaucracy did not grow but actually shrank somewhat, according to the AMA director general's year-end report.¹³ Credit for that is due, however, to Nakasone's predecessor. Whether Nakasone's own initiative for and commitment to a fundamental reform of the entrenched administrative bureaucracy will be effective remains to be seen. Judging by the well-known pattern of his past behavior, it is doubtful that he will keep pushing the reform campaign against the growing opposition.

Another old and familiar issue is the mounting government debt. By the time Nakasone took over as Prime Minister, total government indebtedness had reached about 100 trillion yen, twice the size of the 1982 general account budget. Understandably, Nakasone has refused to honor the pledge made by the Suzuki government to liquidate the debt by 1984 and has suggested instead that it will be 1990 before the government can stop depending on the sale of bonds to balance the budget.

The 1983 budget plan passed by the Diet in April actually proposed the issue of an additional 13,345-billion-yen worth of government bonds during the fiscal year, or nearly 28 percent more than in fiscal 1982. Meanwhile, there have been increasingly articulate and open moves within both the government and LDP circles to try to solve the debt issue by raising tax revenue, especially by introducing indirect taxes, despite the repeated promises to the contrary given by the Suzuki government.¹⁴

On the other hand, the opposition parties have been pressing hard for substantial income tax cuts, to the extent of boycotting Diet debates until the government commits itself to specific action on the issue. The gov-

⁹An LDP elder and Nakasone's former rival, Toshio Komoto, and a former Prime Minister, Suzuki, both attacked Nakasone's "chauvinistic" posture in February, although another ex-Prime Minister, Kishi, endorsed that same posture at about the same time.

¹⁰See Naohiro Yamada, "Toko Kantei: Kasumigaseki ni mau Shirakedori," *Ekonomisuto*, March 1, 1983, pp. 38-42.

¹¹See James Elliot, "The 1981 Administrative Reform in Japan," *Asian Survey*, June, 1983, p. 766.

¹²*Asahi Shimbun*, December 3, 1982.

¹³No new administrative unit was added and personnel were cut back by a total of 1,695. See *Asahi Shimbun*, December 31, 1982.

¹⁴See press reports on the recommendations of the government Tax System Council and the LDP Tax System Council in *Mainichi Shimbun*, December 24, 1982; on the moves within the Finance Ministry see *Asahi Shimbun*, January 30, 1983; for Finance Minister Noboru Takeshita's views see *Yomiuri Shimbun*, February 7, 1983.

ernment and the LDP have yielded to opposition pressure and have promised to undertake tax cuts in the fall without specifying either the exact date of the projected action or the amount of the cuts. Substantial tax increases and substantial tax cuts will probably be undertaken simultaneously either in late 1983 or in 1984. Who will benefit by, or suffer from, the "double-track" deal is not clear. What is clear is that Nakasone and his government are ready to bend under pressure for the sake of political survival or expediency.

The same is true for Nakasone's performance on the issue of defense spending. In light of the continuing fiscal crisis, he has obviously not been in a position to seek an immediate and significant increase in defense spending. Nor has the opposition to large-scale rearmament within and outside the LDP and government circles appreciably diminished in recent years. Thus, Nakasone has characteristically declared his intention to stick "for the time being" to the policy announced in 1976 that keeps defense spending under 1 percent of GNP (gross national product). Mindful, however, of his own beliefs and commitments, as well as the continuing American pressure, he has also suggested that the ceiling might be lifted as early as 1984.¹⁵

The 1983 budget approved by the Diet in April included a 6.5 percent increase in defense spending; allocations in all other categories, such as social security, public works and education, were kept down to 1982 levels.¹⁶ The bulk of the increase in the defense allocation went to retroactive disbursements for the equipment and parts procured in fiscal 1982 and to salary adjustments, rather than to new purchases. As a result, it fell considerably short of the amount requested by the Defense Agency, not to mention the amount the United States had hoped to see approved. It is unlikely that a substantially higher rate of growth

will be approved next year or shortly thereafter.¹⁷ The contents of the 1983 budget, as well as the process by which it was prepared, suggest that there are virtually insurmountable political and bureaucratic barriers to significant increases in defense spending.

FOREIGN POLICY

On the foreign policy front, Nakasone's priority has been the improvement of security and trade relations with the United States. Improving relations with the United States has been a fundamental policy of the LDP ever since the party was founded in the mid-1950's.

Less than two months after he became Prime Minister, Nakasone visited Washington for a summit meeting with President Ronald Reagan. During the meeting he referred to a "trans-Pacific community bound together by common destiny" and, during an interview with a *Washington Post* reporter, he spoke of making Japan an "unsinkable aircraft-carrier." He also declared his government's intention to establish complete and full control over the "four straits" around Japan, including the defense of the vital sea-lanes around the country (specifically, those running between Tokyo and Guam and between Osaka and the Taiwan Strait).¹⁸ After his return to Tokyo, he confirmed to members of the Diet and to reporters his intention to strengthen military cooperation with the United States.

Nakasone has actually taken tangible and significant action on a few outstanding issues of defense cooperation with the United States. The transfer of militarily useful Japanese technology to the United States is one example. Since mid-1981, Washington had been pressing the Japanese government to agree to supply the United States with unspecified types of militarily useful technologies. However, the so-called Three Principles of Arms Export, originally announced in 1967 by the Sato government and subsequently reaffirmed and extended to include military technology in 1976, prevented Tokyo from complying with the United States request. The Nakasone government has in effect waived the application of the principles to the United States to permit Japanese manufacturers to export relevant technologies to the United States.¹⁹

Another example concerns possible action by the Japanese Self-Defense Forces (SDF) in waters around the country to help protect United States naval ships against enemy attacks. The conventional view had been that Japan was forbidden by its constitution and other relevant laws from engaging in collective security actions, as opposed to individual security actions, and that involvement in the protection of American ships, whether military or merchant, would amount to a collective security action. This standard interpretation has been significantly modified by Nakasone. During an exchange of questions and answers with an opposition

¹⁵For details of the negotiations between the LDP and the opposition parties, see Sosuke Uno, *Nakasone Seiken no Seikyoku Un'ei ni tsuite* (Getsuyokai Repoto, no. 1107), pp. 5-11; and Kichizo Hosoda, *Tomen no Seiji Kadai wo meguru Yoyato no Taido* (Getsuyokai Repoto, no. 110), pp. 6-10. See also *Nihon Keizai Shimbun*, April 29, 1983.

¹⁶*Mainichi Shimbun*, April 5, 1983. The amount of defense spending thus approved was equal to .978 percent of GNP and 5.47 percent of the total 1983 budget.

¹⁷Based on statements by the Deputy Director-General of the Finance Ministry's Budget Bureau cited in Hiroshi Kubota, *Zaisei Kaikaku to 58-nendo Yosan* (Getsuyokai Repoto, no. 1105), pp. 12-13.

¹⁸Upon his return to Tokyo, he admitted to Japanese reporters that he had in fact made the alleged statements in Washington but that he had meant to say three, rather than four, straits. See *Asahi Shimbun*, January 22 and 26, 1983.

¹⁹The Three Principles forbid export of weapons to a Communist country, a country against which the United Nations has adopted a resolution banning arms sales, or a country which is currently involved or is likely to get involved in an international dispute. See *Nihon Keizai Shimbun*, January 14, 1983.

party member in the House of Representatives Budget Committee meeting on February 4, 1983, he declared, to the surprise of many Foreign Ministry and Defense Agency officials, that if the United States Navy was operating near Japan for the purpose of defending Japan against foreign aggression, an action by members of the SDF to help guard and protect American warships would be well within the definition of individual security action. By implication, such an action would be constitutional. This novel interpretation has since been confirmed and elaborated by several other representatives of the government.

On the other hand, Nakasone and his Cabinet have been generally noncommittal and inactive on trade issues. He has characteristically explained to Japan's trading partners the "special" problems facing Japan in dealing with the issue of agricultural imports; at the same time, he listens carefully to their views and criticisms.²⁰ Beyond such generalities, he has reduced import duties on cigarettes, cookies and chocolates, relaxed safety standards, and simplified quality certification procedures for certain industrial imports. On import quotas for beef and oranges and the more subtle non-tariff barriers he has not done anything significant, nor is he likely to in the immediate future.

Prime Minister Nakasone and his Cabinet have not been very active in their efforts to improve relations with Communist-bloc nations. In their first major policy speeches in the House of Representatives, both Nakasone and his Foreign Minister, Shintaro Abe, protested that they were not in any way hostile toward North Korea and pledged support for increased unofficial exchanges between North Korea and Japan and for the resumption of a dialogue between Seoul and Pyongyang.

SENSITIVE ISSUES

There have been certain issues that neither Nakasone nor any other member of his Cabinet has explicitly taken up in their formal policy speeches in the Diet but which have nonetheless come up in Diet debates and in the media. One is the issue of constitutional revision. Since its founding in 1955, the LDP has been officially committed to a plan to review the "MacArthur Constitution" as expeditiously as possible, presumably with a view to revising or rewriting it. The commitment has not been fulfilled, but it has been publicized more frequently and loudly in recent years. For the first time in many years the annual LDP party conference in January, 1982, included an explicit ref-

erence to the commitment in the key documents issued by the conference. The 1983 conference of the Liberal Democratic party played up the issue even more loudly.²¹

Before he became Prime Minister, Nakasone consistently advocated an early revision of the postwar constitution. Since he became Prime Minister, however, he has argued that his action as Prime Minister will not necessarily reflect his personal beliefs; in fact, he says he thinks very highly of the basic ideals of the postwar constitution and that he does not intend "at the moment" to place the issue of constitutional revision on his political agenda.

Another issue that Nakasone has tried to avoid discussing in detail publicly concerns the handling of the corruption charges against several prominent LDP leaders, which the opposition and the media have been playing up for obvious reasons. The most celebrated among them is former Prime Minister Tanaka, Nakasone's indispensable ally, who has been on trial for his alleged receipt of a substantial bribe (500 million yen) from the Lockheed Corporation in 1976. Allegedly involved in that same scandal are Tanaka's close associate and LDP secretary general, Nikaido, and a Fukuda faction man and National Land Agency director general, Mutsuki Kato, as well as another LDP member of the House of Representatives who has already been indicted, Takayuki Sato.

The opposition parties have been demanding that these individuals resign from the Diet immediately. In February, they introduced in the House of Representatives a joint draft resolution demanding Tanaka's voluntary resignation. Nakasone has so far ignored the opposition's demand and is certain to continue to do so as long as he can.

PROSPECTS

It is difficult to evaluate fairly and thoroughly the Nakasone government's policies and performance so soon. It is even more difficult to predict its future. Nonetheless, it is possible to point to some straws in the wind.

One indication of the future are the results of recent local and national elections, which presumably reflect the relative popularity of the parties and candidates. The first relevant set of data comes from the gubernatorial and prefectural assembly elections held in April, 1983. In the gubernatorial races in two important prefectures, Hokkaido and Fukuoka, the LDP lost to the opposition and the results were viewed by some

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²⁰See Nakasone's and Foreign Minister Abe's answers to questions asked by opposition members in the House of Representatives Budget Committee on December 10, 1982, in *Nihon Keizai Shimbun*, December 11, 1982. See also *Asahi Shimbun*, December 22, 1982.

²¹For a detailed account of relevant developments in the LDP, see Yasushi Yamaguchi, "Nakasone Seiken no Ichi to Honshitsu," *Sekai*, March, 1983, pp. 44-48.

Haruhiro Fukui is the author of *Party in Power: The Japanese Liberal-Democrats and Policy-Making* (Berkeley: University of California Press, 1970), and coauthor of *Managing an Alliance: The Politics of U.S.-Japanese Relations* (Washington, D.C.: Brookings Institution, 1976).

"It comes as a surprise . . . to see how impressive Japan's actual performance is in conservation. In every area, Japan's performance during the 1970's was better than that of other IEA countries."

Japan's Energy Policies

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SINCE the 1973 oil crisis, Japan's energy policy, both foreign and domestic, has tried to reduce Japan's unfortunate dependence on oil in general and on Middle East and OPEC (Organization of Petroleum Exporting Countries) oil in particular. Japanese reactions to anticipated shortfalls in oil supply have ranged from panic to businesslike calm. Official policies have ranged from relatively silly public information campaigns (encouraging businessmen and bureaucrats to abandon neckties and wear safari suits during the summer) to a very serious and thorough overhaul of the industrial structure.

The Japanese speak almost obsessively of their frightening dependence on imported energy, which would lead one to expect stringent controls on energy use. Instead one finds mild-mannered conservation policies consisting almost entirely of exhortations to accept government suggestions voluntarily, with almost no legal compulsion to modify energy use. Nonetheless, in Japan we find perhaps the most impressive performance among the industrial democracies in terms of conservation, the achievement of IEA (International Energy Agency) and Tokyo Summit targets for reducing oil consumption, and the restoration of relative health to the Japanese economy after a bad year in 1974.

If the Japanese are so anxious about their dependence why are they doing so little about it? If they are doing so little about it, how do they manage to accomplish so much? If they are doing so well why do they persist in being nervous? And why are they doing so well if the dependence that makes them nervous is indeed more serious than in other countries?

To answer these questions, we must understand certain features in the profile of Japanese energy consumption. First, the rapid growth in Japan's energy-intensive industrial sector, for years made possible in part by the supply of cheap oil, resulted in a relatively high share of energy consumption for industry and relatively low shares for the transportation and resi-

dential-commercial sectors, respectively. Second, Japan has made more use of oil and oil derivatives and has been more dependent on them for functions ordinarily performed by other fuels in other countries—most notably, using oil and natural gas rather than coal or water power to generate electricity.

Japanese politicians came easily to the conclusion that Japan should diversify its geographical sources of oil away from all OPEC nations. This task was made easier by the convenient development of new non-OPEC oil fields in China, Mexico and the North Sea. Japan is also trying to persuade the United States Congress to alter legislation that prevents the United States from exporting Alaskan oil. In 1976, 79.5 percent of Japan's oil imports came from the Middle East, but by 1981 only 69.3 percent of all oil imports came from the Middle East.¹

It was also easy for Japan to diversify the contractual arrangements under which oil was imported—that is, to depend as little as possible on purchases through the international majors and to begin making more direct deals between domestically financed oil firms and supplier countries, to buy more oil on the spot market and, wherever diplomatic opportunity presented itself, to make government-to-government deals for oil as well. The attempt to reduce dependence on the majors has long been an element of Japan's energy policy, and threats in 1973–1974 by the majors to reduce supplies sold through their Japanese subsidiaries if the Japanese government tried to put ceilings on oil product prices confirmed the wisdom of this policy.

Japan's preference for spot market purchases was criticized by other major industrial importing nations because Japan's enormous demand for oil (it is the world's second hungriest oil importer, after the truly gluttonous United States) meant that Japan's enthusiastic bidding on the spot market (especially in 1979) could be directly blamed for rising spot market prices. Japanese buyers have since become more experienced and more wary about bidding against themselves and driving up their own purchase prices.

One element of diversifying supplies and contractual arrangements is to concede to the demands of supplier nations that the importing nation invest in the

¹Shigen enerugii cho chokan kambo somuka, *Sogo Enerugii Tokei* (Comprehensive Energy Statistics) (Tokyo: Tsusho sangyo kenkyusha, December, 1981), pp. 256–257; *Seikiyu renmei, Seikiyu Shiryō Geppo* (Oil Data Monthly), vol. 27, no. 6 (June, 1982), pp. 350–355.

supplier nations' economic development, particularly in refineries and petrochemical plants at the wellhead, instead of removing the crude oil for processing and profits elsewhere. In return, suppliers would offer a guaranteed volume or share of the resources to the Japanese market. In view of the political instability or difficult negotiating styles of many OPEC and non-OPEC supplier nations, these investments are very risky, and private firms have been reluctant to engage in these adventures without government backing. For years, the Japanese government and its business leaders have negotiated with the Soviet Union and China about the development of energy resources and the export of Japanese industrial plants, with an eye to Japanese purchases of energy from these countries. Results have been disappointing. Frustrating negotiations with the Soviet Union have prevented most of these projects from materializing, and enthusiasm about many Sino-Japanese projects faded quickly after the abrupt cancelling by China of the steel plant at Baoshan (even though China did pay compensation to the Japanese firms that had already incurred losses). The Japanese government regarded its arrangement to purchase large quantities of Chinese oil as a political coup, but Japanese oil companies protested because the high paraffin content of Chinese oil would require very expensive modifications of petroleum refineries in Japan.

Far more disappointing in terms of sunk costs are Japanese investments in the Middle East itself, most notoriously the Bandar Khomeini petrochemical complex in Iran. This began as a purely private investment in 1973 before the oil crisis (in fact, Japan's financial leaders began talks as early as 1971). The complex was 85 percent complete when the Iranian revolution, followed quickly by the Irani-Iraqi war, suspended further construction in 1979. When the Mitsui group (which dominated the more than 100 firms that participated) threatened to pull out of the project, the Japanese government came through with additional funding, on the condition that Iran continue oil sales to Japan. In its own interest, of course, Japan wanted to find more stable sources of supply to replace its unusually high dependence on Iranian oil; and Japan eventually agreed to participate in American and European sanctions against Iran during the hostage crisis

on the condition that the Bandar Khomeini project be exempt from the sanctions.²

In late 1981, the project threatened to run aground again when Mitsui tried a second time to cut its losses and leave; by October, 1982, Iran had agreed to give high priority to the project and to pay its overdue bills on Japanese loans, although Mitsui refused to resume construction until the Iranians agreed to bear cost overruns.³ Japan's dependence on Iran as a source of oil has dropped from 30-40 percent of its total crude imports before 1973 to 19.5 percent in 1976, 13 percent in 1979, and to just 2.3 percent in 1980.⁴

Another way to diversify supplies and contractual arrangements is to cooperate with other consumer nations—eventually through the International Energy Agency—in order to share “responsibility” in the industrial world for reducing oil consumption, conserving energy, building up emergency stockpiles, sharing oil in a supply crisis; and negotiating jointly with OPEC. Although Japan has done well at containing its oil consumption, conserving energy, and building a more than 120-day stockpile for its own use, cooperation with the IEA nations has proven more difficult. All the members are understandably reluctant to increase their dependence on anybody else, whether OPEC or IEA, in a crisis that will naturally give national interests top priority. Ironically, the commitment to conservation and the anxiety about depending on others appear to go hand in hand.

Therefore the United States, with its enormous domestic supply of oil, is most enthusiastic about consumer collaboration and most sluggish about conservation; Japan, dependent on imports for virtually all its oil, is most skeptical about collaboration and thus far more talented at conservation.⁵

Japan has made modest headway in reducing its demand for oil and diversifying its sources of oil wherever unilateral action (a Japanese decision to purchase from one source rather than another) works, but it has encountered far more trouble wherever bilateral action (Japanese investment in supplier nations) or multilateral action (cooperation with consumer nations) is involved. Not only are bilateral and multilateral negotiations more complex and therefore less likely to yield agreement, but the high risks and subsidiary issues involved also increase internal conflict among Japanese participants over how to proceed.

Japan's search for alternatives to oil can be divided into interim and long-term goals. The only immediately available alternatives to oil are conservation (the substitution of investment in technology and behavioral change for fuel itself) and coal (Japan's own dwindling domestic supply can still be mined if the price is right, and world supplies of coal are plentiful and varied). As longer-term alternatives the Japanese establishment has some interest in renewable forms of energy but places its greatest faith in nuclear power.

²Martha Caldwell, “The Dilemmas of Japan's Oil Dependency,” in Ronald A. Morse, ed., *The Politics of Japan's Energy Strategy* (Berkeley: University of California, Institute of East Asian Studies, 1981), pp. 65-84.

³*Japan Times Weekly* (hereafter, *JTW*), November 14, 1981, December 5, 1981, October 9, 1982.

⁴*Sogo Enerugii Tokei*, pp. 258-259; *Sekiryu Shiryo Geppo*, June, 1982, pp. 350-355.

⁵See the IEA reports for 1978-1981 for the evolution from criticism to admiration of Japan's energy policy. International Energy Agency, *Energy Policies and Programs of IEA Countries* (Paris: OECD, 1979-1982).

Japan's official policies to encourage energy conservation are extensive and impressive (if ludicrously detailed) until one realizes that most of them have been voluntary. Measures urged on business and the general public after the 1973 oil crisis were forgotten when the government declared an end to the state of emergency on September 1, 1974, but the same measures were revived when the second oil crisis convinced the government that as long as Japan depended so heavily on a material that came from politically unstable countries, shortages could be endemic. The government formally adopted a comprehensive list of voluntary measures as official policy in 1979 and 1980, based on predictions from the Economic Planning Agency that these measures could save 20 million kiloliters of oil and could thereby achieve a seven percent reduction in projected oil consumption.⁶

In addition to voluntary measures, the government also launched a public information campaign to keep energy conservation a high priority—setting aside one energy conservation day each month, declaring every February to be an energy conservation month of intense public awareness, doing spot surveys of compliance with the government's suggestions, considering the adoption of daylight savings time and the five-day (as opposed to the six-day) workweek, and funding an Energy Conservation Center to run these campaigns.

A few policies involved legislative changes and offered either rewards for conserving (above and beyond the savings to the conserver) or punishments for not conserving. The government provided special depreciation allowances and tax credits to businesses on investments in energy-conserving equipment and guaranteed the availability of loans (at ordinary terms) to businesses and households for such investments. These loans turned out to be very popular, and the government had to expand the budget for them in 1980. The IEA would like Japan to increase the availability of such inducements still further and especially to make the terms more favorable relative to other kinds of tax breaks and loans.⁷ In 1978, the govern-

ment launched the Moonlight Project, essentially a research fund to develop large-scale energy conservation technology with applications in industry.

The Diet passed an Energy Conservation Law in June, 1979, requiring 4,500 firms that together consumed 75–80 percent of the nation's industrial-sector energy to employ "energy managers," specialists in waste heat and electricity who would go through a rigorous government training program, and then return to their companies with the right to inspect company records, give binding instructions to employees, and thus enforce the government's standards for energy conservation in productive processes and the insulating, heating, and cooling of buildings. There are small penalties of 200,000 yen and 100,000 yen respectively for any firm that refuses to hire energy managers or keeps inadequate records for the energy manager. The law also regulates the energy efficiency of cars, refrigerators and air conditioners.⁸

The IEA's reaction to Japan's measures, especially to the purely voluntary ones, was that they were entirely insufficient. It comes as a surprise, then, to see how impressive Japan's actual performance is in conservation. In every area, during the 1970's Japan's performance was better than that of other IEA countries. Japan's performance also improved steadily over time, breaking old myths about the relationship between energy consumption and gross national product (GNP), with one exception: energy consumption per capita in the residential sector is increasing in Japan, though thus far energy conservation in industry more than makes up for this to produce steady improvement in the overall national record of conservation.⁹

How did Japan achieve such an impressive performance—most of it occurring after 1978 in a very brief period? First, although the conservation measures were largely voluntary, the government has enormous leverage over the behavior of major industries through its system of administrative guidance, an informal, extralegal form of persuasion developed and used principally by the Ministry of International Trade and Industry (MITI). Technically unenforceable, it is in fact backed up by MITI's assorted legal powers over the licensing of technology, permission for construction or expansion of facilities, allocation of materials, and permits to commence operations. MITI has particularly extensive legal powers at its disposal where energy is concerned—as opposed to some other sectors where MITI's legal powers are fewer and its extralegal guidance has traditionally been much less effective.¹⁰

By exercising administrative guidance over the behavior of firms at a stage in the processing or distribution of a commodity where there are only a few firms to monitor, MITI can powerfully influence not only the behavior of those few firms but also the far greater number of enterprises further along in the distribution of that commodity. Thus MITI's control

⁶Shigen enerugii cho chokan kambo sho enerugii taisakuka hen, *Sho Enerugii Benran: Nihon No Sho Enerugii Wo Kangeru Shiryoshu* (Energy Conservation Handbook: Materials on Energy Conservation in Japan) (Tokyo: Sho enerugii sentaa, March, 1980), pp. 21–50.

⁷See the IEA recommendations for Japan in *Energy Policies and Programmes of IEA Countries*.

⁸R. P. Dore, "PSI Study: Energy Conservation in Japanese Industry," unpublished manuscript in circulation at MITI.

⁹For figures, see Keizai kikakucho kokumin seikatsu kyoku hen, *Sho Enerugii Seikatsu No Suishin No Tame Ni* (To Promote an Energy-Conserving Lifestyle) (Tokyo: Okurasho insatsu kyoku, December, 1981); Agency of Natural Resources and Energy, Energy Conservation Division, "The Energy Conservation Policy of Japan," December, 1981.

¹⁰On the history of administrative guidance, see Chalmers A. Johnson, *MITI and The Japanese Miracle* (Stanford: Stanford University Press, 1982).

over fewer than 40 oil companies gives it influence over more than 59,000 gasoline stations. Similarly, MITI's administrative guidance over a highly oligopolistic steel industry affects all ferrous metal manufacturing enterprises. Conversely, the fact that many small firms organize themselves into trade associations in order to exert political pressure gives MITI the opportunity to influence countless small firms indirectly through a quid pro quo: MITI will consider the association's interests in return for its cooperation in transmitting administrative guidance to its member firms. Thus MITI can exert some influence over thousands of tiny retail stores, restaurants and cabarets. Even though administrative guidance cannot possibly control directly the behavior of millions of unorganized firms and individual consumers, there is room for considerable impact. Thus Japan's supposedly voluntary energy conservation measures have in fact almost the same force as binding legal requirements.

A second and equally powerful reason for the success of these voluntary measures is that, after a very bad experience in 1974 (attempting to keep a lid on the prices of oil and related commodities to soften the impact on both industrial users and individual consumers and witnessing the frivolous use of kerosene and liquid propane gas, whose prices were kept low), the Japanese government decided to let prices rise as high as the market would take them. This was politically possible because all Japanese recognized that the factors responsible for rising oil prices were outside Japan and beyond the control of the Japanese government, which therefore did not have to live up to the expectation that it could make oil materialize at low prices. Thus high prices constituted the motive to conserve, and the government's public information campaign merely served as the method, teaching eager firms and citizens how to do what they already wanted to do.

Since 1973, the Japanese government has used administrative guidance to encourage energy-intensive industrial users of oil, from cement to electric utilities, to switch when possible from oil to coal. The fact that Japan used so much oil before 1973 provided room for significant change. There has been talk of lowering air quality standards for sulfur oxides in order to permit the combustion of inexpensive high-sulfur coals, but thus far the environmental lobby has prevented this change, and Japan either uses low-sulfur coal or attaches desulfurization equipment when high-sulfur

coal (or high-sulfur oil) is used. This policy finally began to produce results in 1980.¹¹

Although administrative guidance finally succeeded in stimulating the desired results, the Diet also passed an Alternative Energy Law in 1980 to create additional tax and loan incentives for firms considering conversion to coal.¹²

The search for alternatives to oil does not stop with coal and other fossil fuels. With the establishment of the Sunshine Project in 1974, the Japanese government also indicated an interest—some would say a rather feeble low-budget interest—in the eventual adoption of renewable energies: solar heating and cooling, solar electrification, geothermal, wind, thermal gradient, tide, hydrogen, biomass conversion, and similar forms of energy, most of which require considerable technological study before they can be commercially practicable. Japan's most noteworthy advances to date in these long-term technologies are in geothermal power (available in considerable abundance by virtue of Japan's volcanic origins), solar electrification, and the applications of solar heating and cooling to large office buildings and multifamily housing. In addition, millions of private households have already installed simple solar hot water systems.

The Alternative Energy Law of 1980 also established the New Energy Development Organization under MITI's supervision to finance the research, development and commercialization of coal liquefaction and gasification as well as the renewable energies covered by the Sunshine Project under the Science and Technology Agency. This apparent duplication of effort may reflect not only intra-bureaucratic competition for turf and budgets but also the feeling in 1980 that the government needed to revive the goals of the Sunshine program and to invest heavily in long-term alternatives to oil.¹³ However, the alternatives mentioned thus far are all regarded as long shots. Among all the alternatives to oil, the Japanese government continues to have the strongest faith and interest in another technology based on imported nonrenewable fuel, nuclear fission.

NUCLEAR POWER

Japan must import all its uranium, currently under rather stringent contracts with its suppliers that restrict experiments with uranium enrichment, reprocessing spent fuel, development of advanced thermal and fast breeder reactors, and waste disposal. Nonetheless, the government is making headway in a round of negotiations begun in August, 1982, with Canada, Australia and the United States (its major suppliers) to procure blanket permission in advance for this research.¹⁴ Japan hopes soon to acquire control over the full fuel cycle and to find a permanent disposal site for nuclear wastes—perhaps on an island already contaminated with radioactivity from nuclear tests in the 1950's that

¹¹*Sogo Enerugii Tokei*, pp. 232–250.

¹²Dore, "PSI Study," and Richard J. Samuels, "The Politics of Alternative Energy Research and Development in Japan," in Morse, *op. cit.*, pp. 134–166.

¹³Samuels, "The Politics of Alternative Energy Research and Development in Japan."

¹⁴*Asahi Evening News* (hereafter, *AEN*), August 3, 1982, and *Japan Times* (hereafter, *JT*), September 12, 1982.

the Marshall Islands are offering to Japan.¹⁵ The government expects to have advanced thermal reactors using plutonium fuel in operation by 1990 and commercially practicable fast breeder reactors by 2010.¹⁶

The government is apparently unconcerned with the stagnation in orders for nuclear power plants in other industrial nations, and still calculates that the price per kilowatt hour of nuclear power is cheaper than electric power from fossil fuels (these calculations omit costs of eventual waste disposal, government expenditures for research, and subsidies offered to local governments and fishing cooperatives to compensate them for putting up with nuclear power plants).¹⁷ As was the case elsewhere, Japanese projections of future electricity demand and nuclear generating capacity routinely underwent downward revisions during the sobering 1970's. Nonetheless, the Japanese government and the electric power industry still seem resolutely rosy in their forecasts. At the end of 1982, Japan had 24 operating plants with a total capacity of slightly less than 17 million kilowatts. When the 19 additional plants currently in some stage of planning, construction, or testing are brought into full operation, generating capacity will rise to 35.24 million kilowatts.

Thus it is very difficult to take seriously the latest projections that Japan will be generating 46 million kilowatts by 1990 (just 7 years away) and even harder to believe that Japan can have 100 plants producing 90 million kilowatts by 2000 (only 17 years away).¹⁸ Even during the early years of plant construction, an average of 7 or 8 years was required to bring a plant from blueprint to commercial operation. More recently, increasing opposition to nuclear power among residents where plants were to be located has extended this lead time to about 15 years,¹⁹ suggesting that Japan will need to find sites and draw up plans for 76, not 19, plants in order to meet the target for 2000.

Even though opponents of nuclear power have not yet brought about a moratorium in plant construction, they manage to cause delays, raise costs (both for construction and in the price per head of compensation that the government and utilities must eventually pay), and embarrass the government and the utilities every step of the way for virtually every plant proposed. The

series of accidents at the Tsuruga plant in Fukui Prefecture in early 1981, covered up until revelations and investigations began in April of that year, intensified this opposition.²⁰ Opponents are concerned about the safety of nuclear power per se and question the wisdom of using nuclear power in Japan in particular because of its dense population and high seismic activity. They have been increasingly concerned with the inequities inherent in locating most nuclear power plants in just a few relatively less populated rural zones to serve densely populated cities.

And, finally, opponents are deeply disturbed about how little consideration is given to the opinion of local residents during the planning stages. MITI and the Nuclear Safety Commission hold two public hearings per plant, but they select the speakers, control the agenda, limit speeches (to about 5 minutes each), limit question time (to a total of perhaps 30 minutes for each hearing) and, in the final analysis, may ignore the proceedings entirely. Until May, 1983, opponents boycotted such hearings and held demonstrations outside instead. In early 1983, MITI and the NSC decided to abandon public hearings and instead conduct even more stringently controlled closed hearings and solicit written opinions from local residents.

As their opposition to nuclear power increases, opponents are becoming progressively more skilled in causing delays if not in stopping construction. In addition to demonstrating at the hearings in order to get press coverage, they file lawsuits (a technique borrowed from the environmental movement) and recall pro-nuclear mayors; most recently, they have begun drafting municipal ordinances to require mayors to abide by the results of local referenda.

Even though nuclear power capacity has increased tenfold since 1973, its contribution to Japan's primary energy supply is still small. All in all, it seems likely that Japan's nuclear power program is headed for further difficulties and may not provide the panacea that government, business, and even much of the population still hope for.

Although the Japanese are anxious about their dependence, they have adopted policies that appear faint-hearted and indecisive to some observers because they prefer to let the market provide the motive for conservation. Unfortunate experiences in 1973–1974 with relatively modest forms of intervention confirmed their preference for market solutions.

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¹⁵ *JT*, July 20, 1983.

¹⁶ *AEN*, July 2, 1982.

¹⁷ *JT*, October 27, 1982.

¹⁸ Genshiryoku iinkai [Atomic Energy Commission], *Genshiryoku Hakusho* (White Paper on Nuclear Energy) (October, 1982), summarized in *Nihon joho kyoiku kenkyukai hen, Nihon No Hakusho* (White Papers of Japan) (Tokyo: Seibunsha, April, 1983), pp. 491–497.

¹⁹ Richard P. Suttmeier, "The Japanese Nuclear Power Option: Technological Promise and Social Limitations," in Morse, *op. cit.*, pp. 106–133.

²⁰ The chief of the Tsuruga plant failed to report a serious radiation leak, had unprotected workers clean up the spill and make repairs, and resumed operations without permission.

JAPANESE TECHNOLOGY

(Continued from page 370)

In April, 1982, an institute to coordinate the development of the new system of technologies as a National Research and Development Project was set up. *Fortune* magazine quotes an anonymous United States government technologist as saying: "The way they've organized themselves is like training for a terrorist attack on our industrial base."³¹ By January, 1983, a Stanford computer scientist had coauthored a book warning Americans that the project may give the Japanese an "unequivocal advance over the rest of the world" during the 1990's.³² The book suggests that the loss of leadership in artificial intelligence by the United States would have severe effects on American industry, the American standard of living and national defense.

The first generation computer was based on vacuum tubes, the second on transistors, the third on integrated circuits, and the fourth on very large-scale integrated circuits. The fifth is to incorporate knowledge information processing systems based on artificial intelligence as well as new technology to facilitate access to computers. Under the fifth generation program, some 26 projects are to be conducted by teams of researchers from universities, government laboratories and industry. Their projects will cover both hardware and software, including new higher speed computer systems, machine translation, problem-solving, computer-aided design systems and other topics. The overall program is scheduled to last ten years and to cost about \$1 billion. In its early stages, it is to have ten scientists from the government Electrotechnical Laboratory, about ten from NTT, and five each from eight participating private companies (Fujitsu, Hitachi, Mitsubishi, NEC, Oki Electric, Toshiba, Matsushita, and Sharp). But some American experts are not convinced of the importance of the fifth generation program. The president of IBM is quoted as saying that its significance is more in the realm of public relations than computer science. Others note that despite vigorous efforts in the past, Japan has failed to acquire more than a two percent share of the computer market outside Japan. Nor have the Japanese been particularly impressive in their development of computer software, a vital component of the fifth generation program. Finally, some feel that the Japanese are basing their program on dubious concepts in computer science.³³

As noted earlier, there are loose parallels between

³¹Bro Uttal, "Here Comes Computer Inc.," *Fortune*, October 4, 1982, pp. 82-90.

³²Edward Feigenbaum and Pamela McCorduck, *The Fifth Generation: Artificial Intelligence and Japan's Computer Challenge to the World*, (Reading: Addison-Wesley, 1983).

³³Uttal, "Here Comes Computer Inc."

the emergence of United States-Japanese military conflict in the 1930's and United States-Japanese technological competition in the 1980's. Many people in each country tend to see the actions to "enhance security" by the other as a threat. Military competition is inherently destructive, however, while technological competition can lead to advances that can improve the lives of people everywhere. The problem is that an overly intense technological race between Japan and the United States could have destructive results. It could lead policymakers in both countries to pay insufficient attention to the social impact of the technologies they race to introduce. In the United States, there is already growing pressure to reshape American labor-management and other institutions to improve American industrial competitiveness. Many point with alarm to the much greater use of industrial robots in Japan, for example, and seem to give short shrift to the concerns of those who will have to work with robots and those who will be supplanted by them. In its efforts to overtake the West, Japan has given little attention to housing and other problems. Attention to these problems may continue to be deferred. If the competition intensifies further, it may well be that opportunities for the joint development of technology for the benefit of people in both countries will be overlooked. Finally, the increasing use of the metaphors of combat already seems to have led to technological jingoism in both countries. ■

UNITED STATES-JAPANESE ECONOMIC RELATIONS

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verse effects on its balance of payments. The world has learned that in practice this is not quite the way the system works. Not infrequently, the rates fluctuate wildly, to the point of disrupting the working of the international market, and the major currencies may stay misaligned for a prolonged period.

To a large extent, United States trade deficits in recent years have been caused by the overvaluation of the dollar relative to other major currencies, which in turn has resulted from the high interest rates in the United States. These high rates attract international capital movements toward the dollar, along with strong world transactions' demand for the dollar. Further, at any sign of global geopolitical uncertainty, demand for the dollar as a "safe" reserve currency tends to rise. In consequence, the dollar appreciates and the United States trade balance starts to deteriorate, as the overvalued dollar reduces United States exports and encourages its imports. The fact that the overall balance of payments equilibrium is held thanks to massive capital inflows is small comfort, because capital inflows

³See C. Fred Bergsten, "What to Do about the U.S.-Japan Economic Conflict," *Foreign Affairs*, summer, 1982, pp. 1059-1075.

in search of higher interest rates have little immediate and direct effect on domestic employment, while the rapid increase of imports creates a visible and politically sensitive problem as the number of unemployed in the nation rises allegedly due to foreign competition. As a political issue, it is trade balance, not overall balance of payments, that matters.⁸

Japan has been pursuing an easy-money policy with a tight fiscal policy, the opposite of the United States policy mix. From the standpoint of realizing an equilibrium in bilateral trade relations, the two countries should be doing the reverse. To suggest that the two should really reverse their policies, however, leads to the absurd proposition that a nation's domestic economic objectives ought to be compromised for the sake of achieving a bilateral trade balance. It is essential to understand that much of the United States-Japanese economic friction stems from the inadequacy of the existing international monetary system.

There is another systemic problem behind troubled United States-Japanese relations. What has emerged in Japan after some 30 years of vigorous growth is an industrial superstate whose properties, innerworkings and philosophy are rather different from those of the Western economies. Neither capitalism American-style nor a command economy Soviet-style, the Japanese economy today is a competitive, communitarian system with a cooperative (as against adversary) relationship between the state and private business, keen competition between groups of firms, and a groupistic mode of solving problems.

The formidable productivity of the Japanese economy is a *prima facie* case for its being a rational system. Its newness and variance from the traditional Western economic system tend to mislead outsiders. To Western observers, Japan seems to be a self-centered nation doggedly pursuing its interest by following its own rules, rules that are different from those familiar and acceptable in the West. Japan's industrial dynamism is interpreted as a result of the "unfair" way Japan plays the game rather than the rationality of its system.⁹

As long as this perception gap persists, the international economic order will hang in precarious balance. The Western states may view the continued growth of the Japanese economy as a threat to their existence and may decide to discriminate increasingly against Japan, the nation that would suffer most from the disintegration of the system of multilateral free trade. Its resultant stagnation would in turn further erode the world economic order.

A series of "voluntary export restraints" on Japanese

goods are meant to be merely temporary relief measures for affected American industries so they can revitalize themselves in due course. Thus far, however, there has been little visible upsurge of new plant and equipment investments or productivity gains in steel, automobile and other key industries in the United States. There is no consensus in America about how to reindustrialize. Even if a major recovery of the American economy gets under way and continues into and beyond 1984, it is improbable that the United States will permit the uninhibited entry of Japanese goods into its domestic market.

As part of the structural transformation of its economy, Japan at present is increasing its dependence on offshore processing of materials and offshore procurement of labor-intensive manufactured goods in order to allocate domestic resources toward more advanced manufacturing and services. The United States will not be the beneficiary of this trend. Nor, for political and environmental reasons, will the United States be a major exporter of oil and coal to Japan in the foreseeable future. Meanwhile, Japan must run a trade surplus in manufactured goods to offset an inevitable trade deficit in primary goods, which the nation critically lacks. At the same time, there is serious doubt about the will and ability of the Liberal Democratic party to undertake unilaterally a wholesale liberalization of agriculture, high technology, banking and the rest, not so much to reduce Japan's trade surplus but as a matter of principle and as a way of "saving" the world economic order. In short, there is little reason for easy optimism about United States-Japanese economic relations during the balance of the 1980's. ■

JAPANESE POLICY TOWARD CHINA

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the Bohai Sea and Shijiusuo in the Yellow Sea), one hydroelectric power plant (Wuqiangxi in Hunan Province) and three railroad lines (between Yanzhou and Shijiusuo in Shandong Province, between Beijing and Qinhuangdao in Hebei Province, and between Hengyang in Hunan Province and Guangzhou in Guangdong Province). The expansion of the Qinhuangdao and Shijiusuo port facilities (particularly, large berths and unloading mechanisms), plus the two modern railroad networks linked with them, was primarily planned to bolster Japan's imports of Chinese coals. The Wuqiangxi power plant was to develop China's nonferrous metals industries, whose exports would help finance China's imports of Japanese goods.

As a result of their readjustment policy and other procedural difficulties, the Chinese postponed the Wuqiangxi power plant indefinitely and slowed down the Hengyang-Guangzhou railroad construction program. The Japanese loans initially earmarked for these two projects were transferred to commodity loans (130

⁹Illustrative of this misperception is the April, 1983, report of the Labor-Industry Coalition for International Trade, entitled "International Trade, Industrial Policies, and the Future of American Industry," which proposes the raising of protectionist barriers in the United States as the just way to cope with other countries' industrial policies.

billion yen) for the Baoshan and Daqing projects. However, the Chinese attached high priority to all four construction projects related to their coal exports to Japan because they were essential to the four modernizations.

In 1983 Japan and China began to discuss another five-year loan package (starting in fiscal year 1984) for China. The Chinese prepared a \$6-billion proposal for 13 construction projects (three railroads, four ports, two hydroelectric power plants, two mineral mines, one aluminum plant, and one modern telephone system).¹⁴ The Japanese government dispatched a survey team to China to examine the feasibility of the proposed projects. It is thought that Japan will offer about \$2 billion in government loans for six projects.

The Japanese International Cooperation Agency sponsored 290 Chinese technical trainees in Japan from 1978 to 1981 and sent 150 Japanese technicians and managers to China during the same period.¹⁵ Private Japanese industries vigorously promoted technical exchange programs with China. In 1981 alone, Japan hosted about 250 Chinese scientific and technical delegations with about 1,100 participants. Japanese government-financed survey teams and aid delegations visited China to help its developmental programs ranging from irrigation systems and hydroelectric power plants to industrial management and copper mines. Exchanges of scientists, scholars and students were gradually emphasized between Japan and China. From 1979 to 1982, 960 Chinese students entered Japanese universities and institutes and 480 Japanese students studied at Chinese institutions of higher learning. These numbers are far less than the Sino-American educational exchange programs, but the Japanese government recognizes the importance of encouraging Chinese students and scholars in Japan.

The record of Japan's diplomatic and economic policy toward China in the post-normalization era is generally positive. It is largely due to the enlightened leaders of both countries who have attempted to lower the intensity of their differences over Taiwan, the Senkaku (Diaoyu) Islands and regional affairs, and to maximize the mutual benefits of their friendly and cooperative relations. In particular, the Japanese have demonstrated their tendency to favor China's diplomatic and economic interests even at the cost of those of the Soviet Union. While the Japanese business community is deeply engaged in a variety of China's economic programs, the Japanese government believes that its active support for China's present political leaders and their four modernizations policy is desirable not only for the promotion of bilateral cooperation, but also for peace and prosperity in the Asia-Pacific region.

Yet the future of Japanese relations with China is not devoid of potential challenges and difficulties.

Added to the uncertain status of Taiwan and the Senkaku (Diaoyu) Islands is the lingering effect of Japan's colonial legacy in China. As exemplified in the heightened controversies over Japanese history textbooks, Japan is still vulnerable to an outpouring of Chinese suspicion or animosity. A sizable number of Japanese have an ambivalent attitude toward China—respect for China's traditional cultural grandeur and achievements, and contempt for its economic and technological underdevelopment. The immediate prospect for Japan's economic cooperation with China depends to a great extent upon China's ability successfully to implement its readjustment policy through 1985 and to produce enough of the goods and resources needed by Japan. It is likely that as the Japanese and the Chinese accumulate experiences of economic and diplomatic interdependence during the 1980's, they will be able to find a way to pursue the goals and promises made in the Peace and Friendship Treaty and the Long-Term Trade Agreements. ■

JAPAN'S ENERGY POLICIES

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If the Japanese are doing so little, how do they accomplish so much? First, market solutions work as long as the political waters remain calm. Second, because industry can usually pass on some of its increased costs (economizing to make up for those costs that consumers refuse to absorb), industry has been willing to pay these additional costs. Third, because the industrial sector is the largest consumer of energy in Japan, the strong stimulus to conservation in that sector made an enormous difference in overall conservation.

If Japan is doing so well why are the Japanese nervous? First, most conservation thus far has been in the industrial sector, but the Japanese have expectations about increasing domestic comfort and increasing their use of automobiles as a convenience, and energy experts doubt that Japan can easily achieve much conservation in the transportation or residential-commercial sectors. Second, the Japanese fear that Japan has already achieved the "easy" increment of conservation and that further progress will require technological breakthroughs that may not come at convenient times. Third, success at conservation undermines the conditions that stimulate conservation. The industrial

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INDUSTRIAL POLICY

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tion shared by managements and unions alike is that Japanese workers have an infinite supply of personal resourcefulness and adaptability. To prove this assumption correct, many workers sacrifice large amounts of their own time to acquire new knowledge and skills related to their jobs. This then is where the

¹⁴*Asahi Shimbun*, April 2, 1983.

¹⁵See *Nitchu Keizai Koryu*, pp. 48–54.

buck stops: all the massive technological changes eventually result in longer hours of work on the part of workers when unpaid time for imposed study and training is taken into account. But it is said that Japanese workers do not know how to use free time and that employers who shorten working hours have to instruct employees on how to enjoy the time on their own. I would consider this view of Japanese workers incredible, but there are companies which, after instituting a five-day week, give unpaid work-related training to their employees every Saturday.

In Japan, people try to cooperate in discovering and working toward common goals. Government, business, labor and the public (or in a more personalized description, bureaucrats, businessmen, workers and consumers) obviously see things the same way. This presents Japan almost like a monolith to the rest of the world. The Japanese naturally dislike this view, but it is undeniable that the compulsion for conformity spontaneously felt and acted out by the Japanese is extraordinary by international standards. The notion of "national interest" overrides that of "fair play" and Americans are politely greeted and kept at the door. The question is whether Japan and the United States can live happily together with such divergent values. ■

JAPAN AND THE U.S.

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specific "roles and missions" that United States and Japanese forces would undertake in a crisis, and his endorsement of the 1983 Williamsburg economic summit communiqué that pledged joint defense efforts, the United States and Japan have moved even closer to a working military alliance since 1981. The next step is to see how Nakasone will reconcile the modest posture of the NDPO and the one percent GDP limit with his commitment to a broader conception of defense.

In the early post-World War II era, United States global strategy was designed to deny the Soviet Union control over West Europe, Japan and areas containing vital natural resources. As the Soviet Union was predominantly a land power, the major Soviet military threat was aimed at West Europe, not Japan. As long as the United States had access to bases in Japan, the

Yoshida strategy of a low profile focus on economic performance was acceptable to the United States. This continued from the early 1950's to the mid-1970's.

Secretary of Defense James Schlesinger was the first American Cabinet officer to press for a new division of responsibilities with the Japanese. Schlesinger stressed that, as the United States cut back on its conventional force capabilities including the Seventh Fleet, northeast Asia would be increasingly vulnerable unless Japan made a larger contribution to the region's defense.

Schlesinger's position was not widely held in Washington, however. Secretary of State Kissinger did not want to take any action to jar the emerging American relationship with China, and many in the American foreign affairs establishment were concerned that strengthening Japan would potentially frighten its Pacific neighbors. There was also the view that, to the extent that Japan became capable of defending itself, it would become more independent of United States foreign policy initiatives.

By 1977, Schlesinger's anti-Soviet perspective was replaced by Secretary of State Vance's conciliatory approach. Nevertheless, the Japanese were shocked to hear that President Carter was serious about his campaign proposal to withdraw most of the 40,000 United States ground troops in South Korea. A broad spectrum of Japanese believed that the United States should not make any moves that might destabilize South Korea or change the military balance on the Korean peninsula. Once Vance's initiatives faded and the Carter administration reversed course, taking a firmer stance against Soviet expansion, the Japanese were somewhat reassured. They realized that they would have to pay some price to increase conventional military capabilities in the Pacific. When Secretary of Defense Harold Brown stopped in Tokyo on his return from a visit to China in 1980, the Japanese were again pressured to increase their military force structure. In line with comparable United States negotiations with the NATO (North Atlantic Treaty Organization) partners, Secretary Brown said that "steady and significant" increases in Japanese defense spending were necessary to ensure a viable deterrent.

The Reagan administration has a relatively pessimistic view of China's short-run economic and military potential and has steadily shifted to a view of Japan as its principal Pacific ally. This was first evident in Secretary Shultz's hesitancy to go to China and was made clearer in his strong support for Japan in his February, 1983, San Francisco speech outlining the administration's Asian policy.¹² It is also interesting to note that key White House aides have recently emphasized the useful, cooperative role that Japan is playing in the international economic system.¹³ Now that the United States and Japan appear to have a compatible strategic vision, it seems likely that attention will turn to tactics.

¹²See, for example, Richard Nations, "A Tilt Toward Tokyo," *Far Eastern Economic Review*, April 21, 1983, pp. 36-40.

¹³Norman Bailey, the National Security Council staff officer in charge of international economic issues, gave a speech in Brussels on May 17, 1983, at an international monetary conference commenting favorably on Japan; and Ed Harper, then Domestic Policy Adviser, gave a talk on June 15, 1983, saying that Japan's economic success was not attributable to Japanese government subsidies and predatory trade practices, but was instead due to higher savings and investment rates and, in many cases, greater initiative.

WHAT NEXT?

The political side of United States–Japan relations is strong. Comparable views about South Korea, China, the Association of Southeast Asian Nations (ASEAN) and the Soviet Union make relaxed political discussions the rule. Economic issues could conceivably grow more rancorous if Japan does not change its industrial policy, and if productivity and investment do not increase significantly in the United States. Yet if the current American economic recovery proceeds, domestic employment in the United States should improve and sentiment against Japanese imports should abate. If so, the pressure in Congress to penalize Japan through import quotas or tax measures¹⁴ should fade.

There appear to be three broad alternatives for the Japanese–American defense relationship:

1.) To reaffirm the present course and plan for a gradual expansion of Japanese defense capabilities. This is clearly what the Reagan administration wants, what would be most acceptable to Japan's neighbors, and what is being recommended by nongovernment observers in both countries.¹⁵ This is not only the most likely outcome but would produce the fewest reverberations.

2.) In a less likely but possible alternative, Nakasone might overplay his hand and produce a Japanese reaction against the expansion of the Self Defense Forces. If the Soviet Union reduced its troops in the Kurile islands and redeployed its Backfires and SS-20's to Central Asia, if China reiterated its periodic offer of closer Sino–Japanese relations, and if the United States became increasingly fractious on trade matters, a different Prime Minister might well direct Japanese policy toward a more neutralist alignment. A substantial segment of the Japanese public would favor this move. It might also still be possible to keep the Mutual Security Treaty with the Americans but end the talk of dividing "roles and missions" and integrated military planning.

3.) Another possibility is a more autonomous Japan, taking a stance not dissimilar to de Gaulle's design for France.¹⁶ This direction would require a rapid development of a tangible self-defense capability. It would also mean a reduction of the American military presence in Japan and a rewriting of the Mutual Se-

curity Treaty. Although on the surface this tack appears to be the riskiest because it would distance Japan from its current protector, it might reduce the strategic threat from the Soviet Union and create more flexible foreign policy options.

The future is frequently assumed to be some modest variant of the present. Yet as economic and security issues are linked more explicitly, the Japanese must move beyond their convenient but narrow focus on economic performance. Moreover, with its vitality and economic strength, Japan can create security options for itself that smaller and less dynamic societies could not attain. ■

JAPAN'S NAKASONE GOVERNMENT

(Continued from page 384)

observers as a criticism of Nakasone's hawkish posture. However, in the prefectural assembly elections that were held at the same time, the LDP made substantial gains (80 additional seats), while, with the exception of the Clean Government party, all the opposition parties, but especially the Communists and the New Liberals, suffered significant losses. These results suggest that Nakasone's policies have not turned the majority of the electorate either significantly for or significantly against the LDP or LDP candidates.

Another set of data comes from the House of Councillors election held in June, 1983. The results were again mixed: the LDP gained three additional seats, while the Socialists and the New Liberals lost four and three seats, respectively; the Communists gained two seats, and the Clean Government party and the Democratic Socialists did not gain or lose any. However, when compared to the last House of Councillors election in 1979, the LDP actually lost rather significantly in percentage shares of the vote (a decrease of 7 percent), while the Socialists as well as the Clean Government party made moderate gains (about 3 percentage points in each case). Again, a reasonable interpretation of these results would be that Nakasone's policies or style did not significantly influence the voters.

Judging by the verdicts of the electorate, the Nakasone Cabinet has been neither a resounding success nor a total failure. Nakasone is likely to stay in power. He will undoubtedly try to implement some of the controversial policies—e.g., increased defense spending and constitutional revision—in the next year and a half, thus finishing one full term as LDP president under the party's current rules.

Whether Nakasone's leadership will last longer than two years is difficult to predict. Nakasone enjoys a considerable advantage because there are few potential challengers in sight. Given the continuing impotence of the opposition parties, real challengers to his leadership can only come from within the LDP. Of the three candidates who competed with Nakasone in the 1982 LDP election, one (Ichiro Nakagawa) has since

¹⁴House Congressional Resolution 210 proposed that Japan pay the United States a tax of 2 percent of Japan's GNP (over \$20 billion) as compensation for United States defense efforts on their behalf.

¹⁵See *The Japanese–American Alliance: A Framework for the Future* (New York: UNA–USA, 1983), and *The U.S.–Japan Relationship in the 1980s* (Marina del Rey, Ca.: Security Conference on Asia and the Pacific, 1983).

¹⁶For a detailed review of current Japanese strategic thinking and a discussion of "Japanese Gaullists," see Michael Mochizuki, "Japan's Search for Strategy," *USJP Occasional Paper* (Harvard University, Center for International Affairs, December, 1982).

died. Toshio Komoto, one of the remaining two, won a respectable though hardly impressive share of the vote (27 percent against Nakasone's 57 percent), but his age (71 in 1983) makes him an unlikely contender in the next election, especially if Nakasone manages to retain his popularity. The third contender, Shintaro Abe, is a much younger (58) and therefore a much more likely contender, but he won only about 8 percent of the vote last time and that will make him a relatively unattractive candidate to many of his potential supporters.

While none of the three candidates who challenged Nakasone in 1982 is likely to pose a serious threat to him in 1984, there is one formidable potential contender in the making. Kiichi Miyazawa (62), who has already served in key Cabinet posts, including Foreign Affairs, International Trade and Industry and Economic Planning, and who is known as the brainiest LDP politician, has in effect taken over the reins of the second largest intraparty faction from former Prime Minister Suzuki. At the same time, the Kochikai faction, which has supplied three of the ten LDP presidents since 1955 (Ikeda, Ohira and Suzuki), has begun deliberately to dissociate itself from Nakasone's mainstream coalition, particularly from the Tanaka faction that dominates the coalition.²²

Depending on how successfully he deals with domestic and foreign policy issues during the next 15 months, in November, 1984, Nakasone may face Kiichi Miyazawa, a far more vigorous and threatening challenger than his three competitors in 1982. Immediately following his victory in the November, 1982, LDP presidential election, Nakasone himself declared that he would not seek or expect a long tenure of office.²³ That statement may turn out to be correct. ■

²²For a good analysis of the developments, see Iwami, "Hoshu Saihensei," *Ekonomisuto*, April 12, 1983, pp. 10-16.

²³See Nakasone, "Daiseijika," p. 148.

JAPAN AND WEST EUROPE

(Continued from page 379)

ogy from reaching the Soviet Union to complete the Siberian gas pipeline to West Europe. Thus, Japan began to see its interest in economic cooperation with the U.S.S.R. along with West Europe rather than with President Ronald Reagan's new cold war.

However, with respect to the Soviet nuclear and conventional military threats, Japan has lined up with both the Europeans and the United States. The increases in deployment of the Soviet SS-20 medium-range nuclear missiles in East Asia as well as in Europe have alarmed Japan, which has asked the U.S.S.R. to dismantle them. The Soviet Union has also proposed

to shift some SS-20's from Europe to East Asia. They are apparently aimed at China, but Japan is within range and the Soviets have been fortifying the northern Kurile islands adjacent to Japan which they seized from Japan at the end of World War II. The new Prime Minister, Yasuhiro Nakasone, favors a stronger military force and more active defense role for Japan.

At the Williamsburg economic summit meeting in June, 1983, Nakasone joined the other six major powers in calling on the Soviet Union to cooperate in reductions being discussed at Geneva on intermediate-range nuclear forces. He also endorsed the NATO decision to deploy Pershing 2 nuclear missiles in Europe if the Geneva talks failed.

Kiichi Miyazawa, the new head of the Suzuki faction, former chief Cabinet Secretary, and a likely future Prime Minister, has called for a broad alliance of Europe, Japan and the United States to maintain international peace, promote the world economy, and defend freedom and democracy.¹⁴ Thus, at the top political level at least, there is ample recognition of Japan's need to cooperate, not only with the United States, but with West Europe as well. It does not seem likely that Japan will move beyond the usual bureaucratic politics in opening up its domestic market to its trading partners except at its own slow and deliberate pace. Even if it did so, it would probably not solve the problems of the Europeans and the Americans, who need to put their own houses in order.

As for Europe, Japan is increasingly aware of how much it has in common with its European partners. Relations not only take the old direct bilateral routes with Germany, Britain and France, but they are also increasingly channeled through the European Community organization when it is able to get authority to act. ■

JAPAN'S ENERGY POLICIES

(Continued from page 392)

world's reduced appetite for oil is nibbling away at OPEC's ability to function as a cartel, causing a worldwide oil glut, and pushing the price of crude downward. Japanese energy experts fear that this situation may produce overconfidence and a drop in energy efficiency.

If Japan is doing so well, is its vulnerability to another energy crisis really so serious? That Japan depends for more of its energy on imported fuels than other nations is a hard fact. Japanese energy experts recognize that their next best choice in their own eyes (nuclear power) is also at bottom an imported energy, and that it is very difficult to achieve rapid or radical change in patterns of energy use. They believe that they have done well thus far only because oil still flows; but they are still competing with other energy-importing nations to increase their flexibility and independence in energy matters before the next crisis. ■

¹⁴Kiichi Miyazawa, "To Meet the Challenge," *Asian Survey*, vol. 20, no. 7, pp. 677-682.

THE MONTH IN REVIEW

A Current History chronology covering the most important events of September, 1983, to provide a day-by-day summary of world affairs.

INTERNATIONAL

International Monetary Fund

(See also *Brazil*)

Sept. 26—The International Monetary Fund (IMF) announces an agreement that will provide Brazil with \$11 billion in the form of loans and credits for the balance of 1983 and all of 1984.

Sept. 27—U.S. President Ronald Reagan addresses the 38th annual meeting of the IMF and the World Bank in Washington, D.C.; he calls the fund the "linchpin" of the international financial system.

Madrid Conference on Security and Cooperation in Europe

Sept. 7—Soviet Foreign Minister Andrei Gromyko tells the 35 foreign ministers meeting in Madrid that the South Korean civilian airliner shot down over Soviet territory September 1 was spying for the U.S. and that Soviet borders are "sacred."

Sept. 8—U.S. Secretary of State George Shultz meets with Gromyko for 2 hours in Madrid and demands that the Soviet Union acknowledge responsibility for shooting down the South Korean plane; Shultz reports that Gromyko's responses are "totally unacceptable" to the U.S.

Middle East Crisis

(See *Lebanon*)

Soviet Attack on Korean Plane

(See also *Madrid Conference, U.N.; Japan; Korea, South; Mozambique; U.S.S.R.; U.K., Great Britain; U.S., Foreign Policy, Legislation*)

Sept. 1—The U.S. government announces that a South Korean 747 passenger plane was shot down today by a Soviet jet-fighter over the Sea of Japan; 61 Americans, 72 Koreans, 22 Japanese and 34 Taiwanese were among the 269 passengers killed. U.S. Secretary of State George Shultz says that the plane was off course and over the island of Sakhalin, an important Soviet defense station.

U.S. President Ronald Reagan demands an explanation from the Soviet Union for "this horrifying act of violence."

Sept. 2—The Soviet Union's official news agency Tass reports that Soviet fighters fired "warning shots with tracer shells" at the Korean airliner; it says that the plane was flying without navigation lights and did not attempt to communicate with the Soviet fighters. Tass charges that the plane was on a "pre-planned" spying mission.

U.S. intelligence officials report that the jet tried to contact the Soviet fighters before it was shot down.

Sept. 3—The Soviet Union claims that the U.S. is responsible for the loss of life on the Korean plane because it knew about the spy mission.

Sept. 4—Colonel General Semyon F. Romanov, head of the Soviet air defense forces, says that jet fighter pilots might have confused the airliner with a U.S. reconnaissance plane in the area.

Sept. 5—President Reagan says that the reconnaissance plane in the area of the Korean plane could not have been mistaken for the Korean airliner since the reconnaissance plane landed in Alaska an hour before the Korean plane was shot down.

Sept. 6—The U.S. mission to the U.N. plays tapes of conversations between the Soviet fighter pilot who shot down the Korean airliner and Soviet ground control.

The Soviet government issues a statement conceding that a Soviet jet fighter shot down the Korean airliner.

The 61,000-member International Federation of Airline Pilots Association calls for a 60-day boycott of flights to Moscow.

Sept. 9—At a news conference in Moscow, the Chief of the Soviet General Staff, Marshall Nikolai V. Ogarkov, says that the decision to shoot down the Korean airliner was not an accident or error and that the order came from the local air defense commander.

Sept. 26—The Soviet Union hands over debris from the downed Korean plane to U.S. and Japanese officials.

United Nations (U.N.)

(See also *Soviet Attack; Syria; U.S.S.R.; U.K., Great Britain; U.S., Foreign Policy*)

Sept. 12—The Security Council, with the minimum 9 votes necessary, approves a resolution that "deeply deplores the destruction of the Korean airliner and the tragic loss of life" when the plane "was shot down by Soviet military aircraft." The Soviet Union vetoes the resolution.

Secretary General Javier Pérez de Cuéllar issues his annual report; he deplores the U.N.'s ineffectiveness in settling conflicts.

Sept. 19—U.S. delegate to the U.N. Charles Lichenstein says that if U.N. members do not feel welcome in the U.S. the member states "should consider removing themselves and this organization from the soil of the United States." His statement is made in reply to a Soviet charge that the U.S. action in denying landing rights at Kennedy or Newark airports to Soviet Foreign Minister Andrei Gromyko raises questions of U.S. suitability as a host nation.

Sept. 20—The 38th annual meeting of the General Assembly opens in New York, with delegates from 157 nations. Panama's Vice President Jorge E. Illueca is elected president.

AFGHANISTAN

(See *Pakistan*)

ARGENTINA

Sept. 9—President Reynaldo Bignone pardons former President Isabel Martinez de Perón.

Sept. 23—The military government issues an amnesty that bars prosecution of the military or police for their participation in the "dirty war" against suspected terrorists in the 1970's; over 6,000 people disappeared while in the custody of security forces.

Sept. 27—President Bignone signs a new antiterrorist law that allows warrantless phone-tapping, arrests and house searches.

AUSTRIA
(See *Vatican*)

BELGIUM

Sept. 25—Ex-King Leopold III dies.

BRAZIL
(See also *Intl, IMF*)

Sept. 2—Carlos Geraldo Langoni, president of the Central Bank, resigns; he says that the latest conditions imposed by the International Monetary Fund (IMF) are "socially punitive."

Sept. 9—The entire police force of Rio de Janeiro is ordered to the streets to stop the looting from food stores.

CHAD

Sept. 2—Government troops say that they repulsed an attack by 3,000 Libyan-backed rebels in eastern Chad.

CHILE

Sept. 8—More than 1,000 anti-government demonstrators march in Santiago; many protesters are injured after police attack the demonstrations.

Sept. 9—The government extends by 6 months restrictions on the right to assembly; it is reported that 4 people were killed in yesterday's demonstrations.

Sept. 11—General Augusto Pinochet celebrates his 10th anniversary as President; in a speech, he calls opposition leaders "agents of violence."

CHINA

(See also *U.S., Foreign Policy*)

Sept. 16—Soviet Deputy Foreign Minister Mikhail S. Kapitsa ends talks with Deputy Foreign Minister Qian Qichen and Foreign Minister Wu Xueqian.

Sept. 17—At a news conference for U.S. and Canadian reporters, Foreign Minister Wu says that the Soviet military presence along China's northern border and the Soviet invasion of Afghanistan are obstacles to better relations with the Soviet Union.

Sept. 25—U.S. Secretary of Defense Caspar W. Weinberger arrives in Beijing.

Sept. 27—In a speech in New York, Foreign Minister Wu calls on the U.S. to cease "official or semiofficial" relations with Taiwan; he says that Taiwan is the principal obstacle to improved relations with the U.S.

Sept. 28—Secretary Weinberger ends his talks with Chinese leaders; he announces that Prime Minister Zhao Ziyang will visit the U.S. in January, 1984, and that U.S. President Ronald Reagan will visit China in April.

COLOMBIA
(See *El Salvador*)

CUBA
(See *U.S., Legislation*)

EGYPT

Sept. 24—President Hosni Mubarak announces that he is proposing the repeal of 2 emergency laws that ban demonstrations and make it illegal to spread rumors that could hurt "national unity."

EIRE

Sept. 8—Results from yesterday's election show that an amendment to the constitution that outlaws abortion was approved by a 2-1 majority.

Sept. 10—The government orders the expulsion of 3 Soviet diplomats for spying.

EL SALVADOR

Sept. 1—Treasury police introduce reporters to a former student and member of the guerrilla Popular Liberation Forces who says that he killed a U.S. military adviser on May 25 in San Salvador.

Sept. 4—Rebels attack the country's 3d largest city, killing 10 soldiers.

Sept. 7—U.S. Secretary of Defense Caspar W. Weinberger visits the city of San Vicente.

Sept. 11—Archbishop Arturo Rivera y Damas joins Provisional President Alvaro Magaña in decrying the latest killings by "The Secret Anti-Communist Army."

Sept. 22—A right-wing death squad announces that it kidnapped the Director of Economic Affairs from the Foreign Ministry on September 20.

Sept. 27—More than 15,000 farm workers and their supporters demonstrate in San Salvador in support of the country's land redistribution program.

Sept. 29—Guerrillas and government representatives meet for talks in Bogotá, Colombia; subsequently, government officials say that talks will not continue until the guerrillas agree to talk about taking part in elections scheduled for early 1984.

FRANCE

(See *Lebanon*)

GERMANY, WEST

Sept. 3—Authorities arrest 155 antinuclear demonstrators outside the U.S. Air Force base at Bitburg; another 3,000 demonstrate outside the U.S. Army missile depot near Mutlangen.

Sept. 25—In elections in the industrial state of Hesse, the opposition Social Democratic party receives the largest number of votes but fails to gain a governing majority, leaving the Christian Democrats in power in the legislature.

HONDURAS

Sept. 8—U.S. Secretary of Defense Caspar Weinberger ends his 3-day tour of Central America; he praises the efforts the countries of the region have made to fend off communism.

INDIA

Sept. 18—Prime Minister Indira Gandhi says that India does not possess an atomic bomb but is pursuing a nuclear development program for peaceful purposes.

ISRAEL

(See also *Lebanon*)

Sept. 2—Yitzhak Shamir, the Foreign Minister, is elected to succeed Prime Minister Menachem Begin as head of the governing Herut party.

Sept. 14—Deputy Prime Minister David Levy takes over as acting Prime Minister; Begin is ill.

Sept. 15—Begin formally submits his resignation to President Chaim Herzog.

Sept. 21—President Herzog asks Shamir to try to form a new government.

JAPAN

(See also *Intl, Soviet Attack*)

- Sept. 10—Prime Minister Yasuhiro Nakasone denounces the September 1 attack on a Korean airliner by the Soviet Union.
- Sept. 24—Defense Minister Kazuo Tanikawa and Foreign Minister Shintaro Abe tell visiting U.S. Secretary of Defense Caspar W. Weinberger that it would be "disastrous" for Japan if the U.S. did not counter the Soviet deployment of SS-20 missiles in East Asia.

KENYA

- Sept. 27—After results from yesterday's elections for the National Assembly are announced, 18 Cabinet members return to their posts.

KOREA, NORTH

- Sept. 10—The official press agency reports that President Kim Il Sung has proposed that the governments of North and South Korea "take turns" in governing the country; both sides would retain "their ideologies and systems as they are."

KOREA, SOUTH

(See also *Intl, Madrid Conference, Soviet Attack, U.N.; U.S.S.R.; U.S., Foreign Policy*)

- Sept. 6—The Foreign Ministry reports that the government will not take independent action to retaliate against the Soviet Union for shooting down a Korean Air Lines jet with 269 passengers on September 1.

LEBANON

(See also *Syria; U.S., Foreign Policy, Legislation*)

- Sept. 4—34 people are killed and 25 are wounded in fighting between Christian Phalangist and Syrian-backed Druse militias; the renewed fighting follows the withdrawal of 10,000 Israeli soldiers from the Shuf Mountains and the outskirts of Beirut that began yesterday.
- Sept. 5—Defense Ministry officials report that 40 Druse villagers have been massacred in Kafr Matta by the Christian Phalangists; 2 U.S. Marines, part of the multinational peacekeeping force in Beirut, are wounded in a Druse mortar attack.
- Sept. 6—2 U.S. Marines are killed when their base is shelled by Druse militia.
- Sept. 7—2 French members of the multinational peacekeeping force are killed in an artillery attack by the Druse; the Lebanese government reports that the Druse are supported by members of the Palestine Liberation Organization (PLO).
- Sept. 9—U.S. special Mideast envoy Robert C. MacFarlane meets in Beirut with leaders of the Christian, Druse and Shiite militias and the Lebanese government to try to arrange a cease-fire.
- Sept. 12—2,000 more U.S. Marines arrive off the coast of Lebanon.
- Sept. 17—U.S. warships fire into Syrian-controlled areas of Lebanon; Syrian officials report that they will return the fire if their forces are attacked directly.
- Sept. 18—At a Palestinian refugee camp near Tripoli, PLO leader Yasir Arafat confirms that PLO guerrillas are supporting the Druse militia in the Shuf Mountains.
- Sept. 19—In its 1st direct support of Lebanese army units, U.S. Navy warships shell Druse positions near Suk al Gharb.
- Sept. 22—8 French fighter planes attack anti-govern-

ment positions behind Syrian-controlled territory after the French peacekeeping force is shelled.

- Sept. 23—Shiite militia fight against Lebanese army troops in a southern suburb of Beirut; the Shiites have entered the fighting because the government shelled their area of Beirut.
- Sept. 25—A cease-fire agreement is announced by Saudi Arabian mediator Prince Bandar bin Sultan in Damascus; President Amin Gemayal will begin negotiations on a national reconciliation of the factions that have been fighting since September 4.
- Sept. 26—Prime Minister Shafik al-Wazzan offers to resign to make way for a new government; Syria and Walid Jumblat, the Druse leader, have objected to his presence in the government.
- Sept. 28—PLO leader Arafat says that his troops will stay in the Shuf Mountains for operations against the Israelis.

LIBYA

(See *Chad*)

MOZAMBIQUE

- Sept. 8—A spokesman for the Mozambican National Resistance guerrillas says his group will release 24 Soviet citizens it has held for the last 18 days if the Soviet Union will turn over to South Korea the pilot of the plane who shot down the Korean airliner.
- Sept. 30—In an interview in Maputo, a Deputy Minister of Internal Affairs reveals that the government is forcibly resettling its urban unemployed; at least 30,000 are believed to have been moved.

NICARAGUA

- Sept. 8—2 aircraft piloted by guerrillas bomb Managua's airport and a residential area of the capital; former Sandinista Deputy Defense Minister Edén Pastora Gómez's Revolutionary Democratic Alliance claims responsibility.

NIGERIA

- Sept. 2—Further results from last month's elections give the ruling National party another 47 seats, for a total of 248 of the 450 seats in the House of Representatives.
- Sept. 5—R.A. Laleye, the police commissioner of Niger state, reports that 8 election commissioners were burned to death last week during voting for the state legislature.

PAKISTAN

- Sept. 18—7 Afghan air force jets bomb a village on the Afghanistan-Pakistan border; 1 Pakistani is killed and 1 is wounded.
- Sept. 26—The widow of President Zulfikar Ali Bhutto asks the army to overthrow President Zia ul-Haq; Bhutto was executed by Zia after Zia overthrew his government.
- Sept. 29—Troops kill 17 protesters when they fire on a crowd protesting the Zia government's delays in elections.

PANAMA

(See *Intl, U.N.; U.S., Foreign Policy*)

PERU

- Sept. 10—A state of emergency that was imposed May

30 is lifted in all but 3 provinces of the country.

PHILIPPINES

Sept. 16—Thousands of businessmen and government workers demonstrate against the government in Manila.

Sept. 19—Imelda R. Marcos, the wife of the President, says that her decision to quit politics in 1984 is "definite and irrevocable."

Sept. 21—7 people are killed and 150 are wounded when security officials fire on part of a crowd of 500,000 demonstrating in Manila.

Sept. 24—The Roman Catholic Archbishop of Manila, Jaime Cardinal Sin, asks President Ferdinand E. Marcos to accept a temporary ruling council of government, church, opposition and private leaders to avert a "bloody revolution."

Sept. 29—Government security agents close the *Philippine Times*, which has reprinted articles from *Newsweek* suggesting possible military involvement in the assassination of former Senator Benigno Aquino.

Sept. 30—Chief Justice of the Philippines Enrique Fernando resigns as head of the presidential commission of inquiry into the Aquino murder.

POLAND

Sept. 4—Jozef Cardinal Glemp, head of the Roman Catholic Church in Poland, says that the government's treatment of Solidarity supporters has been "ethically incorrect."

Sept. 6—Jerzy Urban, spokesman for the government, says that 1,472 people were arrested in last week's demonstrations in support of Solidarity; he says most of them have been released.

ST. CHRISTOPHER AND NEVIS

Sept. 19—St. Kitts-Nevis becomes independent and changes its name; it will remain a member of the British commonwealth.

SAUDI ARABIA

(See *Lebanon*)

SYRIA

(See *Lebanon*)

TURKEY

Sept. 21—The military government formally bans 672 candidates from running in general elections scheduled for November 6.

U.S.S.R.

(See also *Intl. Madrid Conference, Soviet Attack, U.N.; China; Eire; Japan; Korea, South; Mozambique; U.S., Foreign Policy, Legislation*)

Sept. 12—The government orders the expulsion of U.S. Vice Consul Lon David Augustenborg for spying.

Sept. 13—The Internal Affairs Ministry announces that 2 former K.G.B. officials have been named Deputy Interior Ministers.

Sept. 17—The government press agency Tass reports that Foreign Minister Andrei Gromyko's trip to the U.N. has been canceled because the U.S. cannot guarantee his safety.

Sept. 22—Marshal Nikolai V. Orgakov, chief of the Soviet general staff, says that the U.S.S.R. will take "response measures" that would pose an equal military

threat to the U.S. if intermediate-range nuclear weapons are deployed in December in West Europe.

Sept. 26—Replying to U.S. President Ronald Reagan's speech to the U.N. today, the official press agency Tass says that President Reagan told "blatant lies"; an earlier dispatch called the President's arms control proposals "a mockery of common sense."

Sept. 28—In his 1st official response to the downing of the Korean airliner September 1, President Yuri Andropov accuses the U.S. of responsibility for the "sophisticated provocation"; he also says that President Reagan's new proposals on intermediate-range nuclear missiles in Europe are unacceptable.

UNITED KINGDOM

Great Britain

(See also *St. Christopher and Nevis; U.S., Foreign Policy*)

Sept. 18—Prime Minister Margaret Thatcher criticizes the Common Market and NATO (the North Atlantic Treaty Organization) for their lack of a "clearer condemnation" of the Soviet Union for its downing of the Korean airliner.

Northern Ireland

Sept. 25—38 Irish nationalist prisoners escape from Maze prison; a guard is stabbed to death and 5 others are injured.

UNITED STATES

Administration

Sept. 1—Environmental Protection Agency (EPA) assistant administrator Lee M. Thomas reports that 133 abandoned hazardous waste sites have been added to the "national priority list," bringing the total number of hazardous waste sites to 546.

Sept. 12—President Ronald Reagan nominates Katherine D. Ortega as Treasurer of the United States.

Sept. 19—Attorney General William French Smith announces the formation of a Task Force on Family Violence, to be headed by Detroit police chief William Hart.

Sept. 21—Interior Secretary James Watt says that the advisory panel reviewing his coal-leasing policies represents nearly everyone, including "a black, a woman, 2 Jews and a cripple."

Sept. 22—Watt apologizes to President Reagan for his "unfortunate remarks."

Sept. 28—U.S. district court Judge Louis Aberdorfer issues an emergency order blocking Interior Secretary Watt's planned sale of 140 million tons of federal coal reserves in North Dakota.

Sept. 30—The EPA issues an order banning most agricultural uses of the pesticide ethylene dibromide.

Civil Rights

Sept. 26—U.S. district court Judge Milton Shadur releases \$4.3 million of the \$48 million in federal funds he ordered frozen on June 30 in a Chicago school desegregation dispute; he orders \$43.7 million to remain frozen until Chicago's needs are determined. On September 9, a U.S. appeals court upheld his June 30 decision.

Economy

Sept. 2—The Labor Department reports a slight rise in the nation's unemployment rate in August, to 9.4 percent.

Sept. 9—The Labor Department reports that its producer price index rose 0.4 percent in August.

Sept. 12—The Agriculture Department estimates that this summer's worst drought since the 1930's will reduce the nation's corn crop by 50 percent and the soybean crop by 33 percent below 1982's record harvests.

Sept. 15—The Commerce Department reports a \$9.7-billion foreign trade deficit for the second quarter of 1983.

Sept. 21—The Commerce Department releases preliminary estimates of the gross national product (GNP) for the 3d quarter of 1983; it is estimated that the nation's economy grew at a 7 percent annual rate.

Sept. 23—The Labor Department reports that its consumer price index rose 0.4 percent in August.

Sept. 26—The New York Stock Exchange's Dow Jones industrial average closes at a new record high of 1260.77.

Sept. 28—The Commerce Department reports that the U.S. trade deficit rose to a record \$7.19 billion in August.

Sept. 30—The Commerce Department reports that its index of leading economic indicators declined 0.1 percent in August.

Foreign Policy

(See also *Intl, IMF, Madrid Conference, Soviet Attack, U.N.; China; El Salvador; Germany, West; Honduras; Japan; Lebanon; U.S.S.R.; U.S., Legislation; Zimbabwe*)

Sept. 1—President Reagan orders an additional 2,000 U.S. Marines to the Mediterranean off Beirut.

The Agriculture Department announces the sale of 900,000 metric tons of grain to the Soviet Union; this is the 1st sale under the new 5-year grain agreement between the two countries.

Sept. 5—In a nationwide television address, President Reagan condemns the Soviet Union for "the Korean airline massacre" and announces new limitations on cultural, scientific and diplomatic exchanges with the Soviet Union.

Sept. 6—Defense Secretary Caspar Weinberger arrives in Panama at the start of a 3-day tour of Central America.

Sept. 12—The State Department discloses that 2 Soviet diplomatic attachés were expelled from the U.S. last month on espionage charges.

Sept. 13—The State Department reports that the President "decided recently that the U.S. Marines [in Lebanon] could use firepower—their own and offshore firepower—to defend themselves and the multinational peacekeeping force in Beirut.

Sept. 16—State Department spokesman John Hughes reports that the U.S. told the Soviet Union today that Soviet Foreign Minister Andrei Gromyko will not be allowed to land in the U.S. in an Aeroflot plane but will have to use a military plane and land at a military airport in order to attend the opening of the U.N. General Assembly in New York.

Sept. 25—Director of the Office of East-West Trade William A. Root resigns in protest over recent administration moves limiting the sale of high technology items to the Soviet Union.

Sept. 26—President Reagan addresses the opening session of the U.N. General Assembly; he calls on the Soviet Union "to reduce the tensions it has heaped on the world in the past few weeks."

Sept. 27—In a letter to House Speaker Thomas P. O'Neill Jr. (D., Mass.), President Reagan says he will

"seek congressional authorization" for any "substantial expansion" in the number of Marines in Lebanon or any expansion of their mission.

Sept. 29—Defense Secretary Weinberger concludes 5 days of conferences in China.

President Reagan meets in Washington, D.C., with Britain's Prime Minister Margaret Thatcher.

Labor and Industry

Sept. 13—United Auto Workers union members approve a new 21-month labor contract with the Chrysler Corporation that includes a \$2.42-an-hour pay increase.

Sept. 26—Baldwin-United Corporation files for bankruptcy under Chapter 11 of the Federal Bankruptcy Act; the company is \$1.6 million in debt.

Legislation

Sept. 15—The Senate unanimously approves yesterday's unanimous House resolution "condemning the criminal Soviet destruction of the Korean civilian airliner."

The House votes 266 to 152 for a \$187.5-billion military authorization bill in fiscal 1984, including authorization of new nerve gas weapons; the Senate voted 83 to 8 to approve the measure September 13; it goes to President Reagan.

Sept. 29—Voting 54 to 46, the Senate approves legislation invoking the War Powers Act in Lebanon and authorizing the U.S. Marines to remain there for 18 additional months; the House approves the Senate resolution, voting 253 to 156.

The House approves legislation creating Radio Martí, a Voice of America broadcast service aimed at Cuba; the Senate approved the legislation earlier this month.

Sept. 30—The Senate approves by a voice vote and the House votes 232 to 136 to pass and send President Reagan a stop-gap spending resolution that will expire November 10.

Politics

Sept. 13—Former South Dakota Senator and 1972 Democratic presidential candidate George McGovern announces his candidacy for the 1984 Democratic presidential nomination.

Trust Territories

Sept. 14—Results from a September 7 plebiscite show that nearly 60 percent of the Marshall Islands' 8,000 voters approve a resolution that calls for independence from the U.S. except in the area of defense; the U.S. Congress has to ratify the resolution.

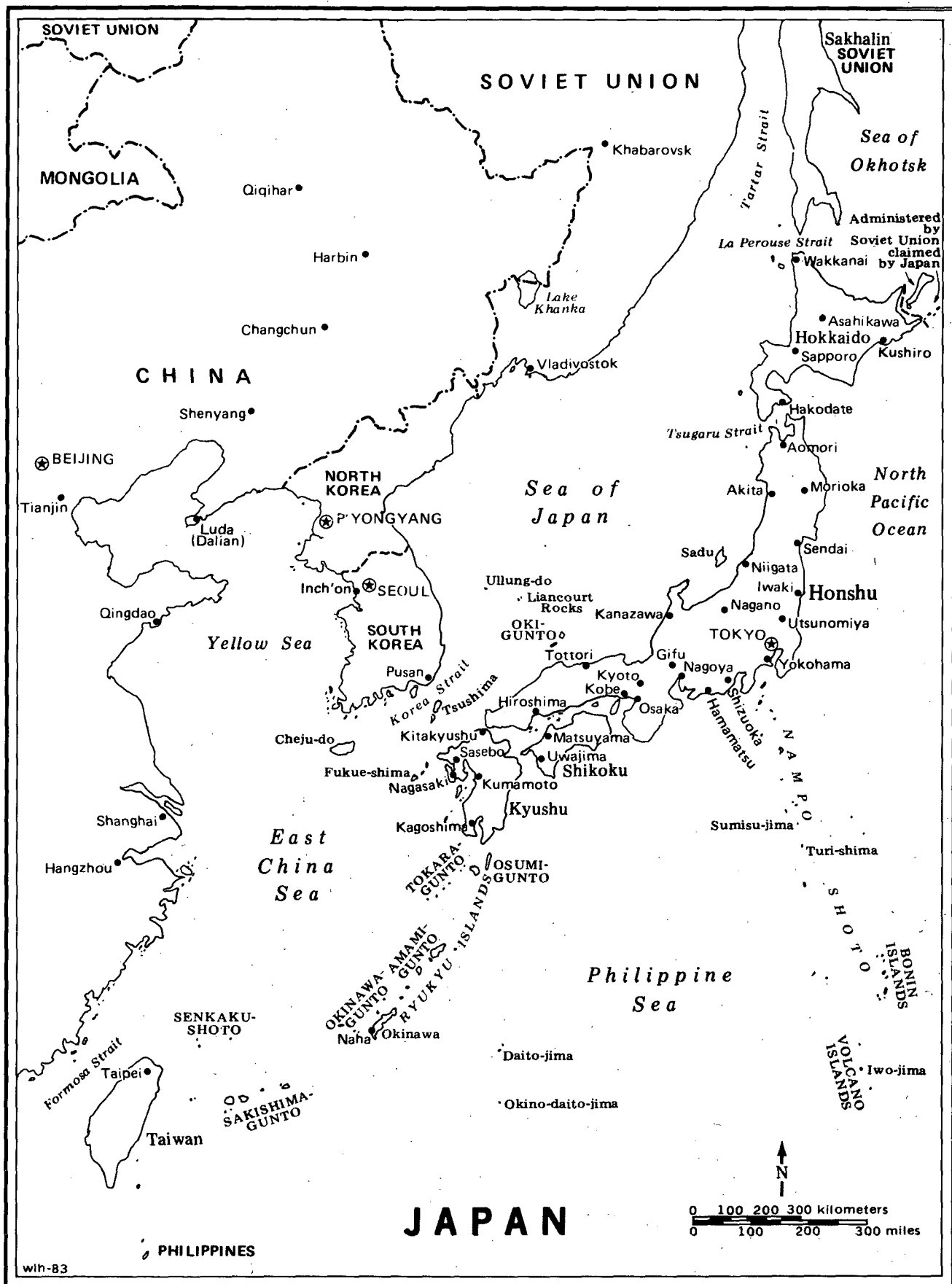
VATICAN

Sept. 13—Pope John Paul II returns from a 4-day visit to Austria.

ZIMBABWE

Sept. 9—The government orders the release and immediate deportation of 2 white airmen it has been holding since they were cleared of charges of sabotage.

Sept. 13—Prime Minister Robert Mugabe meets U.S. President Ronald Reagan in Washington, D.C.; they discuss U.S. policy toward South Africa and Zimbabwe's abstention on a vote on a resolution in the U.N. Security Council that deplored the shooting down of a Korean airliner by the Soviet Union. Mugabe leaves for Zimbabwe.



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